

The China Business Review

THE MAGAZINE OF THE NATIONAL COUNCIL FOR US-CHINA TRADE

September-October 1986



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The China Business Review

The magazine of the National Council for US-China Trade

September-October 1986

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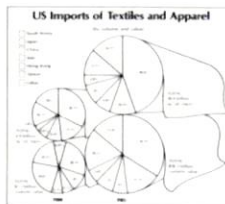
Cover: The US and China don't see eye to eye on all trade issues. *Artwork by John Yanson.*



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摘要

TOBACCO ROW

China's tobacco industry has not followed the pattern of reforms taking place in most sectors of the Chinese economy. Instead of decentralization, the goal has been to manage the industry as a State monopoly.

Why retain central controls over a product used to make cigarettes—a nonessential and even harmful consumer item? Simply stated, with an estimated 300 million smokers in the country, the tobacco industry is too important a source of revenue to give up. In 1985 the industry produced 58.9 billion packs of cigarettes and earned revenues of ¥12 billion, making it one of the top revenue-earners in the country.

But Beijing is having trouble getting a firm grip on the industry. Provincial and local governments, just as eager as the State to profit from this lucrative industry, have long encouraged increased tobacco production in their own factories. In 1981 more than 300 cigarette factories operated outside of the State plan versus 84 within the plan. Even worse, these out-of-plan factories evaded tax payments, depriving the State of valuable revenue.

The State Tobacco Monopoly Administration, established in 1983 under the Ministry of Light Industry and now a ministerial-level organization, hopes to win back central control. Under its aegis, the National Tobacco Corporation is to shut down locally run plants and incorporate the rest of the industry into the State plan.

But in spite of the many plants the Tobacco Corporation claims to have closed, new ones continue to spring up—a sign that local governments retain control over many factories. Local authorities often hoard the best tobacco for their factories, depriving brand-name cigarette makers of their allotted tobacco. And counterfeit cigarettes of poor quality are growing in number, while popular brands, difficult to find in State-run stores, are being sold for as much as

double the price by private vendors.

It is still too early to judge how well the State will succeed in creating a true tobacco monopoly in China. But the effort is shaping up into a battle over revenues between State and local authorities that will test the powers of each. —Kelly Ho Shea

PLA SIDELINES

The Chinese press is full of accounts of how China's military factories are using excess capacity to produce civilian goods, which now account for more than a third of military production. Far less is written about military involvement in civilian service sectors, where the People's Liberation Army is earning large sums in ventures ranging from airlines to trading companies.

Take the hotel situation in Shanghai. Few foreign tourists staying at one of several well-appointed Chinese hotels in the city realize that their proprietor is the PLA. These hotels are sometimes reconverted guest houses formerly used exclusively for army big-shots, but the PLA also builds hotels from scratch on under-used military property. The construction crew may be from the military, as are the factories that supply much of the furnishings. Military officials hold management positions in the hotel, while their sons and daughters fill staff positions.

Transportation services are another major area of activity. Since 1984 the military has earned money sharing some of its facilities (airports, special railways, and ports) with local-

ities, along with airplanes, railroad cars, and other equipment.

While the military seldom advertises its involvement in service enterprises, the name of the enterprise may provide a clue. Red Sea is a tip-off of Navy involvement, as is Blue Sky for the Air Force. Names like these are found on service enterprises throughout China.

Thus, the popular image of the Chinese military as short of cash is belied by the fact that it is taking full advantage of economic reforms to get involved in a wide range of outside business activities. And since some of the military's business activities are foreign exchange earners (and the military keeps what it earns), the amount of foreign exchange available for defense purchases is greater than generally believed. Although the unclassified defense budget is targeted to shrink from 13.1 percent to 9.1 percent of the national budget in the next five years, the military's lucrative new sidelines may well fill its coffers at a rate that will more than offset any real budget cutbacks. —MCR

A GOOD TOY IS HARD TO FIND

For a country that dotes on children as much as China does, it is hard to believe that good toys are hard to find. But it's true. On average only \$1 is spent per child for toys in China, compared to \$270 in the United States. The toys Chinese children *do* have are often not very safe—or appealing.

Now that family incomes are rising and pampered only children are the rule, parents can afford to be more demanding. High on their list of priorities are electronic and educational toys, and toys for infants and toddlers, which are in especially short supply. But China's toy manufacturers are having a tough time satisfying their customers.

One problem is the lack of product variety. China has approximately 220 factories that produce 7,000 varieties of toys and introduce “only a hand-

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ful" of new designs each year. (By comparison, Hong Kong produces 1 million varieties and introduces 50,000 new products annually.) Another is product safety. While plastic toys have long since replaced metal products on the international market, 18 percent of Chinese toys are still made of metal and only 24 percent of plastic. And China's inadequate quality inspection system fails to screen out such hazards as dolls with easily removable eyes.

In their defense, toy manufacturers argue that a shortage of raw materials hampers their ability to make safer toys. Wooden toy producers, for example, report that nontoxic paint-producing factories are in such short supply that there is still not enough paint to go around. Thus some toy manufacturers must either use standard Chinese toxic paints or greatly increase costs by importing nontoxic paint from Hong Kong. The State currently provides only one-third of the raw materials toy manufacturers need, forcing them to purchase the rest on the free market.

China's toy industry may get the help it needs to modernize during the Seventh Five-Year Plan (1986-90). In July the Ministry of Light Industry announced plans to double toy output to ¥1 billion in 1990. The ministry also asked the State to allocate ¥10 million in low-interest loans and \$5 million in foreign currency annually over the next five years to renovate toy factories and develop new products. Finally, the ministry promised "special support to the toy industry by easing taxes and making sure it gets the raw materials and financial resources it needs to meet its goals."

State assistance is also needed to help China's toys become competitive on the international market. At present, China's share of the international toy market is less than 2 percent. Until safer and more sophisticated toys are made, China's best export prospects will continue to be in producing toys and toy parts for foreign manufacturers, rather than exporting under its own brand names.

Although it will be a long time before the toy industry can meet the Chinese demand for toys, the Seventh FYP expansion program signals that the State is finally taking the toy problem seriously. That should bring smiles to the faces of China's 300 mil-

lion children—and their parents.

—Betsy Saik

MODERNIZING MONEY MANAGEMENT

The long row of desks behind the counter and the ceaseless chatter of abacuses camouflage some of the progress being made as China's banking system begins to modernize.

Recent reforms are changing the structure of the banking system, and giving banks more discretion in the way they use—and earn—their money. But banks are also beginning to realize that, as part of the service sector, they can and should offer more attractive services to businesses and individuals.

After a shortage of circulating funds cut into working capital loans and hurt production earlier this year, bankers are coming up with ways to better serve business. One experiment allows commercial banks in several cities to borrow and lend among themselves, adjusting funds between them to better meet demand for loans. Another idea is for banks to accept and discount commercial bills so the firms holding the bills will not fall on hard times when their debtors do. And if enterprises can't borrow enough to satisfy their capital needs, some banks can issue stocks or bonds to help out.

A host of expanded checking services are also being tried out. Certified checks, bank drafts, and travelers' checks should help business operate more smoothly. And post offices in four cities are now offering intercity deposit and withdrawal services on savings accounts, a boon for the traveler. If ongoing experiments in seven cities prove successful, personal checking accounts may become more widespread too.

But banks may face constraints as they try to manage more types of transactions and circulate funds more quickly. The Industrial and Commercial Bank offices in Beijing have seen total transactions increase 529 percent since 1978, but staff has only grown by 32 percent. Computerization will help, but it is still many years away. The first computerized banking system is being set up in Beijing, but all banks in the city will not be computerized to handle deposits and withdrawals for at least five years. Thus, the pace of change may not be able to keep up with the pace of new ideas. —JSS

MAGAZINE STAFF

Madelyn C. Ross
editor

Julia S. Sensenbrenner
Deborah Diamond-Kim
associate editors

Priscilla Totten
production coordinator

Martin Weil
contributing editor

Jennifer Little
book editor

Betsy Saik
editorial assistant

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Sue Partyke
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RESERVATIONS MUST BE RECEIVED BY OCTOBER 20, 1986

On the eve of the National People's Congress (NPC) last spring, few topics in Beijing attracted more attention than the massive Three Gorges dam proposed for Hubei Province. But when the NPC convened in March, it quickly became clear that the dam would be left out of the Seventh Five-Year Plan (1986-90), and even excluded from the NPC's agenda for discussion.

In a press conference during the NPC, Vice Premier Li Peng, who headed the "small leading group" set up by the State Council in 1984 to review studies on the Three Gorges project, set the new tone by saying that China would adopt a "prudent" approach to deciding the fate of the dam. This amounted to backpedaling from the 1984 State Council decision in favor of building the Three Gorges dam, in which construction had been scheduled for 1986 pending resolution of some technical issues.

What is holding up the Three Gorges project? Seen in historical perspective, the current impasse is hardly surprising. The dam proposal has foundered on a clash of interests over fundamental issues, many of them unresolved since the mid-1950s. The four main issues then, as now, concern the best sequence for construction of a number of dams on the Yangtze River and its tribu-

Waiting for the Three Gorges Dam

Bureaucratic battles continue over the impact of the largest hydropower project ever proposed

Kenneth Lieberthal and Michel Oksenberg

taries, the depth of the reservoir behind the dam during the low-water season, continuing technological (including environmental) uncertainties, and the cost and financing of the project—variously estimated at \$12-\$20 billion. Sharp disagreements persist over such matters as the average per capita cost of resettling displaced persons, the cost of the machinery required to build the dam, and what role foreign financing should play. Huge cost overruns on construction of other major dams such as Gezhouba (costing about 2.6 times its originally budgeted figure), add tension to the debate over the Three Gorges project.

The key players

Making a decision on the Three

Gorges dam is further complicated by the large number of important parties with an intense interest in the outcome. Even a selective list of key players reveals the remarkable diversity of interests involved. These various parties have battled over the issue via technical studies, debates at specialized conferences convened to discuss the project, and major national forums such as the 1985 meeting of the NPC.

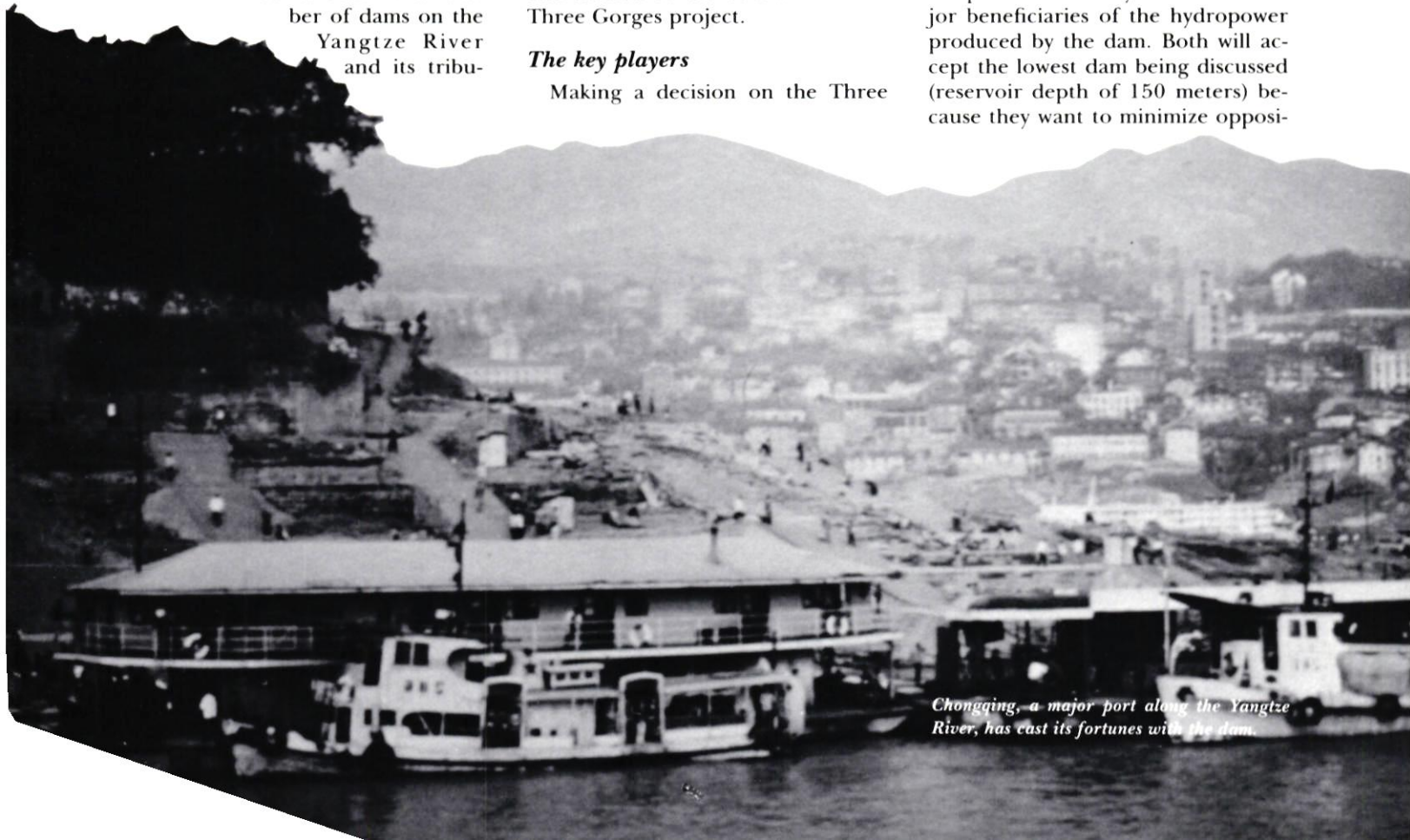
Proponents of the Three Gorges project are numerous. In schematic and simplified terms the line-up appears to be as follows:

- **The Water Resources Group** within the hybrid Ministry of Water Resources and Electric Power (MWREP) wants the dam and views it primarily as a vehicle for flood control. MWREP Minister Qian Zhengying is herself an ardent advocate of the dam.

- **The Yangtze Valley Planning Office** within MWREP, the design organ for the dam, strongly supports construction of the dam and sees its primary purpose as flood control. Lin Yishan, who headed this office from the 1950s to the 1970s, was an indefatigable fighter for the dam.

- **Hunan and Hubei** provinces want early construction of a dam to reduce their vulnerability to catastrophic floods. They will also be major beneficiaries of the hydropower produced by the dam. Both will accept the lowest dam being discussed (reservoir depth of 150 meters) because they want to minimize opposi-

Photo courtesy of the U.S. Department of the Interior



Chongqing, a major port along the Yangtze River, has cast its fortunes with the dam.

tion so the dam can be built as soon as possible.

- **Jiangxi, Anhui, Jiangsu, and Shanghai** generally support the Three Gorges dam for its flood control and hydropower benefits but worry about its environmental impact. The environmental issue is especially important to Shanghai, which fears deleterious changes in the marine biology of the Yangtze estuary.

- **The city of Chongqing**, in Sichuan Province, prefers early construction of a dam with a 180-meter deep reservoir to promote its commercial development as a key port city, even though the number of people displaced by the dam would reach 1 million as opposed to the 300,000–500,000 people displaced by a 150-meter deep reservoir. Chongqing opposes the 150-meter depth since such a reservoir would be too shallow for 10,000-tonne tows to reach its port and would instead make Wanxian (some 250 kilometers downstream) the key entrepot linking the economy of Sichuan with that of the rich middle-Yangtze region.

- **The State Planning Commission** in 1983–84 approved the feasibility study for the dam. Its current views are unknown.

Skeptics and opponents of the project are also numerous and powerful. A schematic rundown appears to be as follows:

- **The Electric Power Group** under MWREP is uneasy about the dam. Those in charge of producing electricity worry about the dam's long lead time (10 years until initial power production, 17 years until it comes fully on line), about the huge cost (which may slow down development of alternative power sources), and about the potential fluctuations in electric power production that can result from adjusting the water flow primarily to achieve flood control objectives.

- **The Ministry of Communications (MOC)**—and especially its **Yangtze Navigation Bureau**—anticipates that the project will obstruct navigation in the area, initially due to construction of the dam and later because of silting problems. (Dam promoters argue, to the contrary, that the dam will actually facilitate navigation by submerging hazardous shoals, slowing the water flow behind the dam, and deepening the channel.) Despite extensive studies done over

several decades, important technical questions, especially concerning silting, have not been resolved to MOC's satisfaction.

- **The Ministry of Finance** is reluctant to commit so much investment capital to a single project over such a long period.

- **Sichuan Province** wants electricity now and would like to minimize the problem of displaced persons. It therefore prefers to build small dams on the Yangtze tributaries in Sichuan first (these would be necessary even if the Three Gorges dam were built). For Sichuan, smaller dams will provide more electricity and greater flood control, and will do both more quickly.

- **The State Science and Technology Commission** has commissioned studies that stress the technical difficulties and uncertainties in constructing the dam.

Opposition gains ground

The prospects for the dam in mid-1984 appeared excellent. The State Council put its imprimatur on the Three Gorges project and took organizational initiatives to resolve remaining technical questions, reduce opposition based on the resettlement issue, and create an authority to deal with foreigners involved in constructing the dam itself.

In April 1984 the State Council approved in principle a feasibility study done by the Yangtze Valley Planning Office for construction of the Three Gorges dam. As of late 1984, supporters of dam construction felt confident the project would be listed in the Seventh Five-Year Plan and would get under way in 1986–87. While the 1984 decision in fact tilted in favor of a 1986 commitment, it did not completely preempt the opportunity for opponents to mobilize, and they used this opportunity effectively.

The State Council recognized the need to resolve important technical problems in order to proceed with construction and thus established a

Kenneth Lieberthal and Michel Oksenberg are professors of political science and members of the Center for Chinese Studies at the University of Michigan. This article is based on research done for Kenneth Lieberthal and Michel Oksenberg, Bureaucratic Politics and Chinese Energy Development (Washington, DC: GPO), 1986.

“small leading group” under Vice Premier Li Peng to arrange for additional technical studies. This group was to report on its findings and recommendations in 1986, at which time the dam would receive a final go ahead.

To cope with the concerns over the issue of displaced persons (a minimum of over 300,000 inhabitants), the State Council also established a preparatory committee under former MWREP Vice Minister Li Boning to form a new Three Gorges (Sanxia) Province. This new province would cost Sichuan and Hubei some of their territory, but also relieve them of the onerous burden of resettlement. The State Council planned to give this new province preferential treatment in foreign trade and investment, and to take special pains to build up the province's economy. At its inception, however, the province would be the poorest, per capita, in China.

The State Council had MWREP establish a preparatory committee for the Three Gorges Development Corporation, which would be responsible for contracting all work on the dam once construction began. This same corporation would manage both the Gezhouba and, when completed, the Three Gorges dam operations.

Two developments during 1985–86 upset expectations that construction of the dam would begin soon. First, the opponents of the dam used a highly critical report prepared by the Jiu San Society (one of China's minor political parties consisting mostly of engineers) and other technical studies to mount a major challenge based on geological, environmental, and silting issues. And second, Chinese leaders responded to the overheating of the economy in late 1984 with belt-tightening measures that in turn sapped the confidence needed to undertake a project of this magnitude. Indeed, China has declared that the capital construction budget should be held down during 1985–87, and this policy alone has forced back the latest timetable for construction of the Three Gorges. Twenty-five years ago, similar issues had compelled China to drop plans for Three Gorges construction after the first decision to build the dam had been made in 1958.

New efforts and rising opportunity costs

Because the reports coming in to

Li Peng's "small leading group" left too many issues unresolved, China decided to carry out yet another round of feasibility studies after the spring 1986 NPC meeting. Beijing thus disbanded Li Peng's group and created three new bodies: 1) a Sanxia Examination Committee headed by Li Peng, with the leaders of the State Planning Commission and the State Science and Technology Commission as deputy heads; 2) a Sanxia Project Deliberation Leading Group within MWREP led by Minister Qian Zhengying; and 3) a Sanxia Project Coordination Group, with representatives from several top Party and government bodies.

Qian Zhengying's group is responsible for reviewing previous feasibility studies and then producing a new feasibility study and recommendation on the dam by late March 1987. Li Peng's group will examine this new study and make a general decision on the project. The Coordination Group, which will oversee the whole process, appears to be a device to assure a range of older leaders that they will have a say in this issue. Finally, the issue will go to the NPC for approval.

This new arrangement appears to concentrate more power over the analysis of project feasibility and drafting of a recommendation in MWREP, a strong supporter of construction of the Three Gorges dam. (Previously, Li Peng's small leading group had responsibility for these tasks.) But it leaves other groups in which MWREP representation is far weaker responsible for final recommendations and decisions on the project. In another shift, more attention will now be given to financial feasibility.

In July 1986 the Canadian government also reached an agreement with MWREP to conduct a wide-ranging feasibility study on the Three Gorges. This latter study, which will be reviewed by an expert panel funded by the World Bank, will cost nearly \$9 million and should be completed by fall 1987. It will provide a firmer basis for cost estimates, a necessary step in the process of seeking foreign financial assistance for the project.

The role of foreign assistance

Foreign countries have been deeply involved in the Three Gorges project ever since the US Bureau of Reclamation chief engineer super-

vised an initial feasibility study for the dam in the 1940s. The Soviet Union advised on the project in the 1950s, and the US and other countries (especially Canada and Japan, but also Brazil, Italy, and others) have played a part in the deliberations of the 1980s. Current foreign government participation is clearly aimed at capturing a portion of the dam construction for the countries concerned. China recognizes both that the dam will require some use of foreign funds (the amount and modalities are being sharply debated in Beijing) and that economic feasibility studies done by the Chinese themselves are inadequate to provide a sound basis for such foreign financing.

The current cost consciousness of the Chinese leadership requires that any foreign country seeking a major share of the work on this project will have to offer some form of mixed or concessionary financing. This fact of life can put Japan in a particularly strong position and the United States at a major disadvantage.

Foreign participants must be wary of political pitfalls. This project has such a long and controversial history in China that its opponents will continue to look for opportunities to criticize and sidetrack it even after construction has begun. The very size and complexity of this undertaking, moreover, will inevitably produce bottlenecks, delays, cost overruns, and unforeseen difficulties. Foreigners must be careful to minimize the chances that they will become scapegoats for future difficulties, and maximize the degree to which they are seen merely as resource people facilitating the implementation of decisions that have been taken by the Chinese themselves.

Breaking the deadlock won't be easy

If all goes smoothly in the feasibility studies now under way, actual construction could begin in early 1988, even though this project was not listed in the Seventh Five-Year Plan. But a lot could happen before then to change the fortunes of the dam. First, a decision on whether to proceed with construction will likely reflect the overall state of the economy at that time. At a minimum, the Three Gorges dam will be the most expensive investment project ever undertaken in China, tying up capital

for at least a decade before it begins to generate revenue from electric power production. General economic optimism facilitates this type of decision. Pessimism renders it very unlikely.

Second, this dam must attract the wholehearted support of Zhao Ziyang, Deng Xiaoping, and/or Hu Yaobang. Enthusiastic support at the highest level is necessary simply because the interests opposed to the dam are so powerful as a group that only the energetic commitment of at least one of these three leaders can forge a consensus to construct this project. To date, none has been an advocate of the dam. Zhao toured the proposed dam area shortly after the close of the NPC last spring, and his findings may have produced the new organizational changes. As premier, he holds the most direct authority for the dam among the three leaders. Li Peng reportedly opposed the dam when he was in the Electric Power Ministry in 1980-81. His more recent position is a matter of intense speculation. Qian Zhengying remains a strong supporter of early construction.

In any case, conditions affecting the dam will continue to evolve, and the opportunity costs of keeping the issue on the agenda without a final resolution are rising. The approaching completion of the Gezhouba dam will free up the roughly 50,000 workers and support staff that have been engaged in that project, fueling the pressure for a final decision on the Three Gorges. Potential dam costs are rising rapidly, moreover, through a combination of domestic inflation, devaluation of the yuan internationally, and the increasing wealth of the peasants who will have to be relocated if the dam is built.

This does not mean, however, that failure to reach a quick, favorable decision will remove the dam from China's national agenda. Supporters of the Three Gorges dam have tried to begin construction on the project for the past 30 years, and the prospects for the dam have waxed and waned repeatedly. The stark economic trade-offs and ongoing technical uncertainties surrounding the dam have created strong and enduring constituencies. Ardent support for, and passionate opposition to the Three Gorges dam will thus continue to be a part of the Chinese political landscape in the years to come. 完

High hopes for a lucrative new market are behind China's latest space advances

Space Commerce

Bradley Hahn

China's advances in space technology have long been a source of national pride and an important aspect of the country's national defense program. Since the 1970s, indigenous satellite developments have also yielded tangible civilian benefits in such areas as communications, earth resource surveys, and meteorology.

Now China seems determined to show that its efforts to develop space technology—previously geared toward national defense and scientific research—will pay off handsomely in commercial terms too. By the end of the century, China's planners hope to develop a wide range of commercial services for foreign clients that will enable the country to benefit from what promises to be a multi-billion-dollar world space industry market.

The impressive pace of China's aerospace development to date has frequently surprised Western experts. In April 1984, on the second attempted launch using the Long March III rocket (a Long March II with a third stage added), China put a communications satellite into geosynchronous orbit using a cryogenic (liquid hydrogen and oxygen) third stage booster. A similar launch, equally successful, followed in February 1986. Not only is the design, development, and application of this advanced technology considered a remarkable achievement for a developing country like China, but it is a feat that only the United States and the European Space Agency have accomplished thus far; the Soviet Union has yet to put cryogenic boosters into operation.

As remarkable as these and other aerospace achievements have been, some foreign observers question China's economic rationale for these am-

bitious programs, arguing that it would be cheaper for China to buy what it needs on the world market or develop this technology in cooperation with foreign partners. But Chinese officials seem determined to prove them wrong.

Space program size and scope remains a mystery

How realistic are China's commercial space plans? The available evidence, including an impressive record of 18 successful satellite launches, one failure, and one partial failure since 1970 (see *The CBR*, July–Aug 1984 for a full survey of China's activities in space) suggests that China could realize its objectives, given a substantial commitment of resources and research.

But outsiders can only speculate about the feasibility of China's plans since much about China's space program remains unknown. Heavy military involvement in space activities, including control over launching facilities, is one reason behind China's reluctance to reveal even its annual space budget to foreign agencies and institutes. One estimate suggests that China spends an average of about 0.5 percent of its gross national product on space research and development, or about \$5.8 billion in 1985. But space R&D involves many academies, institutes, and enterprises—supervised in varying degrees by several ministries—making reliable estimates difficult. Leading organizations include the Ministry of Astronautics (MOA) and its Chinese Academy of Space Technology (China's counterpart to NASA), as well as the ministries of electronics, posts

Bradley Hahn is director of the Titusville, Florida consulting firm, Hahn Associates International.

and telecommunications, and radio and television. Estimates of the number of aerospace workers range from 15,000 to 20,000 administrative, scientific, and technical personnel.

China's eagerness to participate in international space commercialization is encouraging officials to be more forthcoming about the country's space programs, however. During a 1985 RIENA Space Academic Seminar in Italy, for example, Chinese representatives for the first time publicly revealed data concerning booster capabilities of their Long March space transportation systems.

In June 1985, at the Paris Air Show, a Chinese MOA official also disclosed the exact location of China's latest launch site in Sichuan. The site, run by the People's Liberation Army, is located in the town of Liangshan, some 20 miles from Xichang. The 'Xichang site' is closer to the equator than the older, Jiuquan launch complex in Gansu Province and is thus more suitable for launching geosynchronous satellites. There are also proposals to build a second launch pad in Xichang that would serve as a backup in the event of a mishap at the first launch pad.

In the latest revelation, during a June 1986 press conference in China, MOA Vice Minister Sun Jiadong declared for the first time that although China's Long March II and Fengbao-I rocket boosters look the same, the FB-I was, in fact, an inferior rocket that was discontinued in 1981. Previous Chinese reports had drawn no distinction between the two boosters.

A new competitor for international launch services?

Since late last year, China has begun to actively solicit customers for its commercial launch services—ser-

vices it hopes to begin providing by the end of next year. Huang Zuoyi, senior MOA engineer, stated at the International Astronomical Federation's congress during October 1985, "What we can do is to provide a supplement for the launch service marketplace and to offer one more choice for international users."

A number of Western delegations have visited China's aerospace facilities recently and generally concluded that China's space program, though simple, is effective. Most believe that China can deliver the launch services it is offering foreign companies. Kennedy Space Center's Bob Sieck, who visited China late last year, says that the Chinese have "just basically what it takes to do what they are trying to do, which is launch unmanned vehicles and put satellites into geosynchronous orbit, with an Atlas-Centaur type technology." And the low cost of materials and scientific labor in China means that launch services can be provided at much lower rates than those charged by Western Europe and the United States.

China's 202-tonne, three-stage Long March III can lift payloads of up to 1.4 tonnes into geosynchronous transfer orbits according to the MOA, and its capacity is currently being upgraded to 2.5 tonnes. This lift capability, comparable to the US Titan class, is suitable for lighter payloads like scientific, weather, and remote-sensing satellites as well as small geosynchronous communications satellites. It is precisely these smaller payloads that China is seeking.

China's efforts to promote launch services and space cooperation with developed countries have already led to the signing of technical cooperation agreements with France, the Federal Republic of Germany, and Great Britain. A cooperative space technology pact with Japan is also reportedly in the works.

But it is the Third World that Chinese officials hope will eventually generate much of the demand for space launch services. In January 1986, U Keli of the China Great Wall Industrial Corp. announced China's interest in building a joint satellite-launching pad in Indonesia in cooperation with both Indonesia—whose location astride the equator is ideal for launching—and Singapore, where an advanced electronics industry is eager to emerge from its

present slump. Nothing more has been heard about this proposal, however—possibly a sign that Jakarta has quietly conveyed its disinterest to Beijing. China may have greater success with Brazil. *The People's Daily* reported in August that China has agreed to launch four of Brazil's weather and natural resources satellites. The date and location remain undecided, although both sides agreed to launch before 1992.

China's eagerness to participate in international space commercialization is encouraging officials to be more forthcoming about the country's space program.

Ambitious plans encompass many satellite services

China is now at work on the Long March IV, a large rocket transportation system similar in capacity to the US Saturn I, which China hopes to introduce in the 1990s. Development efforts are also being directed toward producing solid rocket stages and booster clusters to increase the capacities of Long March II and Long March III carrier rockets.

Although satellite launches are the most practical space service China can reasonably expect to provide in the near future, officials are contemplating many other types of commercial space ventures. After establishing itself in the launch business, China hopes to provide telemetry, tracking, and control (TT&C) services to foreign countries. Before it can do so, however, it will have to convert from its present C-band TT&C network to the standard international S-band. France is now assisting China in setting up S-band stations that will link them to the international network and thereby enhance China's TT&C capabilities. China's national network presently consists of a main control center at Weinan, Shanxi Province; a command and control launch center at Xichang; eight ground stations; and two TT&C sea-going vessels.

China has a firm foundation in sat-

ellite technology upon which to develop TT&C services. Already the Chinese have mastered imaging and reentry technology necessary to return reconnaissance film safely to earth. In addition to using cameras and reentry film capsules for military reconnaissance and earth resource photography, China has already flown at least one spacecraft that transmitted medium-resolution test pictures to earth by radio, an important milestone in routinely conducting remote sensing and weather satellite operations.

The MOA also claims that it can design and build made-to-order satellites. Newly introduced computerized equipment designed by the Chinese should boost China's ability to produce custom-made satellites.

An open door policy in space?

Even more ambitious than the satellite services China plans to offer primarily to Third World countries is the goal of developing space shuttles and even a space station by the end of the century. Space planners are also talking about designing and producing spacecraft for other countries.

To many Western observers these plans seem unrealistic for a developing country that began its satellite program in earnest only in the last decade. Indeed, it seems likely that China will have to scale back some of its ambitious space plans if it is to rapidly modernize basic sectors of the economy. Still, China's space planners hope that by accelerating development of indigenous technology and providing services and products to foreign customers, the space program will start to pay for itself. To reach this position, however, substantial investments are needed notwithstanding the country's no-frills approach to space R&D. Further cooperation with foreign partners on both commercial and scientific aspects of the space program will also be necessary.

But if the timing of China's various space plans seem too optimistic, few foreign observers question China's ultimate ability to accomplish its commercial objectives in space. Even competition from other rising stars such as Japan will not necessarily jeopardize China's chances in the space industry market. If demand for space services continues to grow, there should be ample room for both old and new suppliers. 完

With the world space industry in disarray, China hopes for a shot at the big time

LAUNCH WARS

Natasha Wei

The startling chain of American and European rocket failures in the first half of this year has revived interest in China's year-old offer to launch commercial satellites. The question now is whether China can convince satellite owners to take the next step: signing a launch contract.

Only four days after the US Space Shuttle Challenger accident of January 28, China successfully launched its second satellite into geosynchronous orbit on its new Long March III rocket. Since then, the Chinese have stepped-up their aggressive campaign to market commercial launch services. The China Great Wall Industrial Corporation (CGWIC) headed by deputy general manager U Keli, toured the US for 25 days in March and April to make person-to-person sales calls. On June 6 Vice Minister Sun Jiadong from the Ministry of Astronautics (MOA) and Vice Minister Shen Rongjun of the National Defense Science, Technology, and Industry Commission held a rare press conference to answer questions on the track record of the Long March rockets and provide technical information about China's space program. Later in the month at the Space Commerce exhibition in Montreux, Switzerland, the Chinese were busy distributing colorful brochures of their rocket booster. And in late August, U Keli returned to the United States with a six-person delegation headed by MOA Vice Minister Bao Keming.

Meanwhile, faced with a dearth of Western launch services, many satellite owners are seeking alternatives. Among the most anxious was Indonesia, whose Palapa B-3 satellite was scheduled to be launched by the shuttle this year to replace an older communications satellite whose orbit is

decaying. Until NASA offered Indonesia a 1987 launch on one of its few Delta rockets, Indonesia was reportedly even considering Soviet offers to launch their US-made satellite.

China, with its offers of low prices and cheap insurance, looked like a strong contender in the launch market during May and June. But if opportune timing has worked to China's advantage, several other factors are making potential customers reluctant to take Chinese launch services seriously. New questions are being raised about China's technological capability, launch site facilities, and actual launch prices, as well as its ability to work within export control guidelines. Overcoming these doubts will be one of the main challenges of China's space program in this decade.

The uphill climb to credibility

Western satellite owners admit privately that they are considering China—among others—for launching. The prevailing view among those who have talked extensively with CGWIC holds that the Chinese have been very helpful and accommodating, trying to bring their facilities up to Western standards, and seemingly willing to provide as much information as they can about their rocket technology.

Nevertheless, many potential clients wonder whether Chinese rockets will be manufactured and tested as carefully as in the West. In response to these concerns the Chinese announced in July a new quality control system for the manufacture of Long

Natasha Wei was a research assistant at the National Council this summer and has returned to the Sloan School of Management at MIT to complete her master's degree.

March rockets. Others question China's claims that it can launch 10–12 rockets a year. Arianespace, a European company with seven years of experience in launching geosynchronous satellites, has never launched more than four rockets a year. Still others point out that, when last seen, the Xichang site's clean room—where satellites are processed and installed on a rocket—had open windows that could easily expose satellites to dust and contamination. China now says it plans to build special clean rooms for foreign satellites.

In addition to questions about technological competence, potential customers complain that, unlike NASA and Arianespace, CGWIC will not give firm prices for their launches, but only hints of a 10–15 percent discount over US and European rates.

How well has China been able to attract customers for its launch services? Most negotiations between CGWIC and potential clients are shrouded in secrecy. CGWIC, recently given to rash disclosures about negotiations with potential customers, has since learned that the space industry shies away from publicity. What is known is that two launch reservations have been made so far—a respectable number for a newcomer to space commerce, perhaps, but hardly a stampede.

Of the two clients with launch reservations, the Swedish Space Corporation (SSC) appears the most likely to actually go through with a launch. SSC was the first to sign a preliminary launch contract with CGWIC in January 1986 to launch a small postal satellite called Mailstar on the Long March II from the older Jiuquan launch site in Gansu Province. The launch will cost \$4 million without insurance according to a CGWIC spokesman. SSC has already made a deposit of \$50,000 to reserve a launch slot. The Mailstar satellite would be launched on the back of a Chinese satellite into low-earth polar orbit. Although the rocket is ready, the launch awaits the manufacture of the Swedish satellite, expected to be completed in 1988. Sweden has previously launched its satellites with Arianespace.

Although as well-publicized as the SSC negotiations, the status of Teresat's negotiations with China are much less certain. Teresat is a consortium of US companies based in

Houston formed last year to purchase two satellites retrieved by the shuttle in 1984 after failing to achieve their proper orbit. A June delegation from Teresat signed a launch reservation with CGWIC in China amidst much fanfare. But Teresat has yet to obtain the financing and the satellites necessary for this deal to get off the ground. While Teresat waited for the owners of the two satellites to decide on a buyer, a spokesman for Sattel Co. of Van Nuys, California told *The CBR* in August that they have purchased the Palapa B-2 satellite—one of the satellites Teresat hoped to buy.

Even if the agreement falls through, the Teresat negotiations will have proved mutually beneficial, with Teresat getting more fuel to support its bid for financial backing to purchase, launch, and insure satellites and the PRC getting publicity for its launch services.

One company frequently mentioned as a potential customer for Chinese launches is Western Union, whose Westar VI-S communications satellite was scheduled to be launched by the Columbia shuttle in June this year, and was pushed back to a December 1989 launch. Western Union will have to turn away business unless it can launch the satellite sooner, and is now reportedly considering European and Chinese rockets, although still pinning its hopes on NASA.

When the Teresat deal was announced in June, Sun Jiadong also disclosed that Hughes had proposed a joint venture for a Hawaii space center using Chinese carrier rockets to launch American commercial satellites. This report was immediately denied by Hughes representatives, who admitted only that the company was exploring many possibilities for such a space center.

Apart from the Swedish Space Corporation, then, none of the other companies mentioned in the press appear close to arranging a conclusive deal with CGWIC.

Unresolved technology transfer issues

Even if more companies indicate interest in a Chinese launch in the future, they will still face the problem of surmounting export controls. Although the US has substantially relaxed many prohibitions against technology transfer to China since 1980,

the issue of transferring satellite technology is especially sensitive because of the direct military applications of this technology.

The best chance China has at being permitted to launch a US-made satellite is if it agrees not to look at the satellite technology. Industry representatives say that it is theoretically possible to mount a satellite on a launch rocket without the launch company having access to satellite technology, although it has never been tried. Such an arrangement would entail reconfiguring the satellite to fit the rocket *before* the satellite is sent to the foreign launch site.

The US State Department's Office of Munitions Control has not yet received a request for an export license to launch a US-made satellite from China. According to one official, such requests would be considered on a case-by-case basis. Unofficially, Munitions Control will admit that this type of license "may" be approved, while in contrast such a license for a Soviet launch is out of the question for the foreseeable future.

U Keli promised in June 1986 that satellites would be exempt from Chinese customs inspection and that clients may send representatives to supervise, protect, test, and install their satellites. These assurances also form part of China's agreement with Teresat, according to company President Henry Schwartz. Sun Jiadong announced in June that China would even build special warehouses to ensure the security of foreign satellite technology if necessary.



The new brochure used to market China's launch services to "any country in the world."

The insurance enticement

China's offer of lower insurance premiums may be hard to carry out, partly because satellite launch insurance itself is a relatively new and highly uncertain business. Although the earliest issue dated back to the mid-60s, space insurance did not become big business until 1979. Trust in the technology of the launches was high and the premiums, ranging from 5–8 percent of the whole package, were hard to pass up on satellite launch packages worth at least \$65 million. Underwriters were easy to find until this year.

Space insurers now find themselves paying for their earlier optimism. Satellite and launch insurance premiums have skyrocketed to an estimated 25–32 percent when they are available at all. Claims from launch and satellite failures, according to two space insurance firms, have grown to twice the premiums collected.

In these circumstances, some insurance brokers doubt China will be able to secure reinsurance (a common procedure for transferring financial risk) at reasonable prices. Jean-Michel Eid, account executive at the space brokerage firm Corroon and Black Inspace, disagrees. "No one knows what effect the Long March will have on the insurance community. But because of their high success rate, China should attract more favorable rates."

In any case favorable reinsurance rates are not crucial to China's plan. Sun Jiadong admitted in June that the People's Insurance Company of China (PICC) will essentially subsidize the Long March launches in order to entice foreign customers. Sun's remark illustrates the close working relationship his ministry enjoys with PICC. It also underscores the greater ability of PICC, as a State-controlled company, to absorb the financial losses that would undo private firms.

Some observers speculate that PICC is also a bargaining chip to acquire technology. When China first announced its interest in providing commercial launches, it probably hoped to learn more about Western satellite technology in the course of mounting and launching the satellites. This apparent bid for technology failed in the face of export controls that prohibit revealing satellite technology to communist countries.

During the Teresat negotiations this year, MOA was able to try again for access to the technology by asking for manufacturing specifications before agreeing to insure the satellite. The request was quickly dropped, however, as China wisely chose to take the path of least resistance. PICC settled

on insuring the Long March rockets only.

Measuring up against the competition

In terms of its technology, the main constraint on China's competitiveness is the limited payload capac-

ity of the Long March III. Currently, a few of the new generation communications satellites are too heavy for the Long March III. When its payload capacity is increased from 1.4 to 2.5 tonnes, which MOA hopes to do as early as next year, the Long March III will be able to carry most satel-

CHINA'S SPACE MINISTRY

The Ministry of Astronautics (MOA) is responsible for developing satellites, launch vehicles, and strategic weapons systems including ICBMs and nuclear warheads. The ministry was established in 1982, growing out of a merger between the former Seventh and Eighth Ministries of Machine-Building. Since then MOA has branched out into the civilian sector, and most of its factories are now producing some civilian goods. But MOA retains strong ties with the PLA. MOA's launch sites, for instance, are owned and operated by the PLA.

The China Great Wall Industrial Corp. (CGWIC) is MOA's import-export arm, and as such is empowered to sign foreign contracts on its behalf and on behalf of the two other companies under MOA, Wanyuan and Lishen Microelectronics. Until recently the ministry had another foreign marketing company, the China Precision Machinery Import-Export Corp. (CPMIEC), which had overlapping jurisdiction and many joint projects with CGWIC. This summer CPMIEC was merged into CGWIC. CGWIC has business relations with all of the MOA's factories.

To smooth the negotiating process for commercial satellite launching, CGWIC formed a new Space Division in July, and has longstanding hopes to open offices in New York and Washington, DC.

■ MINISTRY OF ASTRONAUTICS

Minister: Li Xu'e

Vice Ministers: Bao Keming
Cheng Lianchang
Sun Jiadong

8 Fuchengmen Road
Beijing
Tel: 892632

- PLANNING DEPARTMENT
- TECHNOLOGY QUALITY
- SCIENTIFIC RESEARCH
- CAPITAL CONSTRUCTION
- GENERAL OFFICE
- PERSONNEL
- RETIRED CADRES
- FOREIGN AFFAIRS
- FINANCE
- EDUCATION
- SHANGHAI SPACE INDUSTRIAL BUREAU
- XI'AN SPACE INDUSTRIAL BUREAU

- MOA oversees 100-150 factories and more than 50 research institutes throughout the country.

- CHINESE ACADEMY OF SPACE TECHNOLOGY (CAST)
President: Min Guirong
Engages in design, manufacture, R&D, maintenance, and testing of commercial satellites and earth stations.
- SCIENCE AND TECHNOLOGY COMMITTEE
Chairman: Ren Xinmin
Technical consulting unit.

▲ COMPANIES UNDER MOA

▲ WANYUAN COMPANY

Fengtian District, Wanyuan Rd., Beijing
Tel: 768221 ext. 4664
General Manager: He Kerang
Markets rockets and related technology.

▲ CHINA GREAT WALL INDUSTRIAL CORPORATION

No. 17 Wenchang Hutong, P.O. Box 847, Beijing
Tel: 651896 Telex: 22651
General Manager: Tang Jingan
Deputy General Manager: U Keli
Responsible for commercial satellite launching and some product research, design, manufacturing, and marketing.

▲ LISHEN MICROELECTRONICS COMPANY

Xi'an, Shaanxi
Tel: 22721
General Manager: Yang Liqian
Markets microelectronics, especially semiconductors and related components.

- MARKETING DEPARTMENT
Director: Zhang Zhimin
- PLANNING
Director: Shi Guoyuan
- MANAGEMENT
Director: Ji Xunyi
- DEVELOPMENT
Director: Zhang Shenchang
- FINANCE AND TRANSPORTATION
Director: Jin Shikui
- IMPORT DEPARTMENT
Director: Wang Lizhi
- FIRST EXPORT DEPARTMENT
Director: Wang Xincai
(rockets, satellites, and satellite services)
- SECOND EXPORT DEPARTMENT
Director: Xiang Anli
(precision machinery, civil engineering projects abroad)

- SPACE DIVISION (est. July 1986)
Directors: U Keli
Zhang Jiqing
Temporary office:
P.O. Box 848, Beijing
Tel: 893018
Telex: 20026
Responsible for negotiations of commercial satellite launching for foreign clients.

- REGIONAL BRANCHES
Guangzhou
Shenzhen
Shanghai
Dalian
Hunan
Chongqing
Jinan
Tianjin

- FOREIGN OFFICES
Federal Republic of Germany
Hong Kong
Jordan

SOURCES: Ministry of Astronautics, CGWIC, and National Council files.
Compiled by: Andrew Ness and Natasha Wei.

lites. Until then, space industry and government officials generally agree that China's launch services are adequate for lighter commercial satellites and especially appropriate for small polar satellites because the Chinese can launch them along with their own earth resource satellites. By contrast, if Arianespace cannot find two small satellites to launch together, the client must pay for a much heavier payload than necessary.

With NASA scaling back its role in the commercial launching business, China has few current and potential competitors: a few private and thus far financially unsuccessful US launch companies, Arianespace, and potentially Japan and the Soviet Union. Their plans and capabilities are briefly summarized below:

The United States: The US has lifted communications-sized satellites into geosynchronous orbit since the early 1960s and, until the Challenger accident, was expected to dominate the commercial launch market with the shuttle. In August 1986 Reagan announced that all commercial launches by NASA would be discontinued with the exception of special foreign satellites and those made expressly for the shuttle. Accordingly, NASA has allowed for 15 of the 44 launches scheduled before the Challenger failure to take place between 1989 and 1992, while the rest may be canceled. Future US commercial launch capability will rest mainly with private companies, which will require at least three to five years before they are ready to launch.

Arianespace: A private company with predominantly French and West German backing, Arianespace was founded in 1979 to provide an alternative to NASA for commercial launching services, especially for European clients. Its space technology in expendable launch vehicles is comparable to that of the US, but its launch record includes four failures out of 18 launches.

Thrown off schedule by a May explosion, Arianespace plans to resume service in early 1987 with six to eight launches a year (sometimes with two satellites on a launch). It reportedly charges \$25-\$27 million to launch a one-tonne satellite.

Notwithstanding its claims to have little government funding, Arianespace has been allocated \$1.9 billion in government funding from

the European Space Agency to develop the Ariane 4, which will carry a payload of at least 2,000 kgs.

Japan/NASDA: The National Space Development Agency (NASDA), established in 1969, has been steadily developing an N-series and H-series of rockets to launch communications and weather satellites. NASDA has launched 14 small satellites on the N rockets with a 100 percent success rate. The N-2, which can carry 350 kgs into geosynchronous orbit and the H-1, carrying 550 kgs, are suitable only for small satellites.

Unlike the N-series and H-1 rockets, the H-2, with a 2,000 kg payload capacity, could be stiff competition for the Long March III when it is first launched in 1992.

USSR: The Soviet Union reveals very little about its space program. It reportedly schedules close to 100 launches a year, compared to about 25 for the US before the shuttle accident. Although its space technology surpasses that of the US in many areas, it has failed to develop a reusable launch vehicle like the shuttle, and continues to rely on expendable launch vehicles.

The USSR has already launched small satellites for France and India but faces insurmountable export controls when it comes to US satellites or satellites made with US parts. These restrictions made it impossible, for example, for the International Maritime Organization to consider the Soviets' 1983 and 1986 offers to launch one of its satellites, even though the Soviet launch price was reportedly two-thirds that of Arianespace.

In an interesting twist, Soviet General Secretary Mikhail Gorbachev proposed cooperation with China in space exploration and astronaut training in a conciliatory speech in July. Probably calculated for effect, the Soviet offer nevertheless raises the possibility of the USSR as one of China's future partners in space.

Third World Nations: The Third World poses no credible challenge to China's ambitions in space. Experiments on suborbital launch vehicles have been conducted in only eight other developing countries: Argentina, Brazil, India, Indonesia, Mexico, Pakistan, Peru, and the Philippines. India is the most advanced, with a launch vehicle that can carry

150 kg into low-earth orbit, and thus is still far from competing in the geosynchronous launch market.

The outlook for Chinese launches

The Chinese have several advantages in their bid for satellite launching: they are ready to launch sooner than Arianespace or the US, they can underprice the competition with government subsidies and lower labor and material costs, and they can offer, if necessary, State-subsidized launch insurance. On the other hand, they are subject to export controls—which hamper their ability to launch satellites and to offer satellite insurance—and in a few years they must face more competition from the Japanese and probably the US.

For the next five years, especially if its launches proceed successfully, China may be able to supplement the launch shortage faced by satellite owners. But the future market for all launch companies may be bleak in the 1990s. By then demand for geosynchronous satellite launching will decrease, since satellites have an expected life of 7 to 10 years. In addition, fiber optics are emerging as a cost-effective alternative to satellite communications. Soaring satellite launch and insurance costs could boost the fortunes of fiber optics companies, to the detriment of even low-budget launchers like China.

Most satellite owners are weighing their launching options carefully. After a year of marketing efforts, CGWIC has only two signed reservations: one with a company that does not and may never own a satellite.

The high risks involved in the satellite industry have made serious customers think twice about entrusting their satellites to an unfamiliar launcher. Instead, they are closely scrutinizing the launch services of Western Europe and private US companies, and waiting for NASA to clarify its plan for future commercial launches.

The momentum behind China's commercial space program may accelerate when it develops a list of satisfied customers—or if additional Western launch failures create a panic—but until then, many satellite owners seem content to buy first rights of refusal on proven launchers like Arianespace. 完

US-China Trade Patterns

The outlook for two countries with a lot to share

Nai-Ruenn Chen

The Chinese and American economies are often viewed as complementary. American high-technology products, capital goods, and industrial materials are advanced, competitive, and vital to China's development, while the United States is a growing market for Chinese goods.

This symbiotic relationship was demonstrated in 1985 as the US accounted for about 10 percent of China's imports and 12 percent of China's exports. The US held its rank as China's third-largest trading partner after Japan and Hong Kong, while China moved up three places to 16th among US trading partners.

China's Seventh Five-Year Plan (FYP) (1986-90) envisions a 40 percent increase in the total volume of China's imports and exports by 1990, with imports projected to grow at an average annual rate of 6.1 percent and exports at 8.1 percent annually. US-China trade may differ from this pattern, however, in that China's imports may grow faster than its exports to the US. This is because the goals set in the five-year plan should lead to greater purchases from the United States, especially of goods and technology for the energy, telecommunications, electronics, and transportation sectors—priority areas where the US holds a strong competitive position. American investment in China should also generate new opportunities for US sales of machinery, raw materials, technology, and services by raising the level of technical development and familiarizing China with US-made products.

Since the Chinese are extremely sensitive to trade imbalances, the future growth of US exports to China will depend, in part, on China's ability to expand its exports to the United States. If textiles and apparel

The goals of China's five-year plan should lead to greater purchases from the US.

continue to constitute well over half of US manufactured imports from China, the Chinese will be vulnerable to US protectionist pressures. In recent years, China has tried to diversify its exports, but efforts have been concentrated within the textile and apparel sector—where China has stepped up exports in categories not yet restricted by US import quotas. To significantly expand exports to the US, China must diversify *beyond* the textile and apparel categories and increase sales of products that are not likely to harm US producers, and for which there is both strong and sustainable demand.

Two scenarios for growth

This article highlights the probable direction and trends in US-China trade for the remainder of the 1980s. Predictions for future US trade with China are based on recent trade trends (indicated in Tables 1 and 2) as well as the general guidelines contained in the Seventh FYP. Financial

Nai-Ruenn Chen is an economist at the International Trade Administration of the US Department of Commerce. This article is adapted from the author's paper "US-China Trade: Prospects Under China's Seventh Five-Year Plan (1986-1990)." The views expressed are those of the author, and do not represent those of the Department of Commerce.

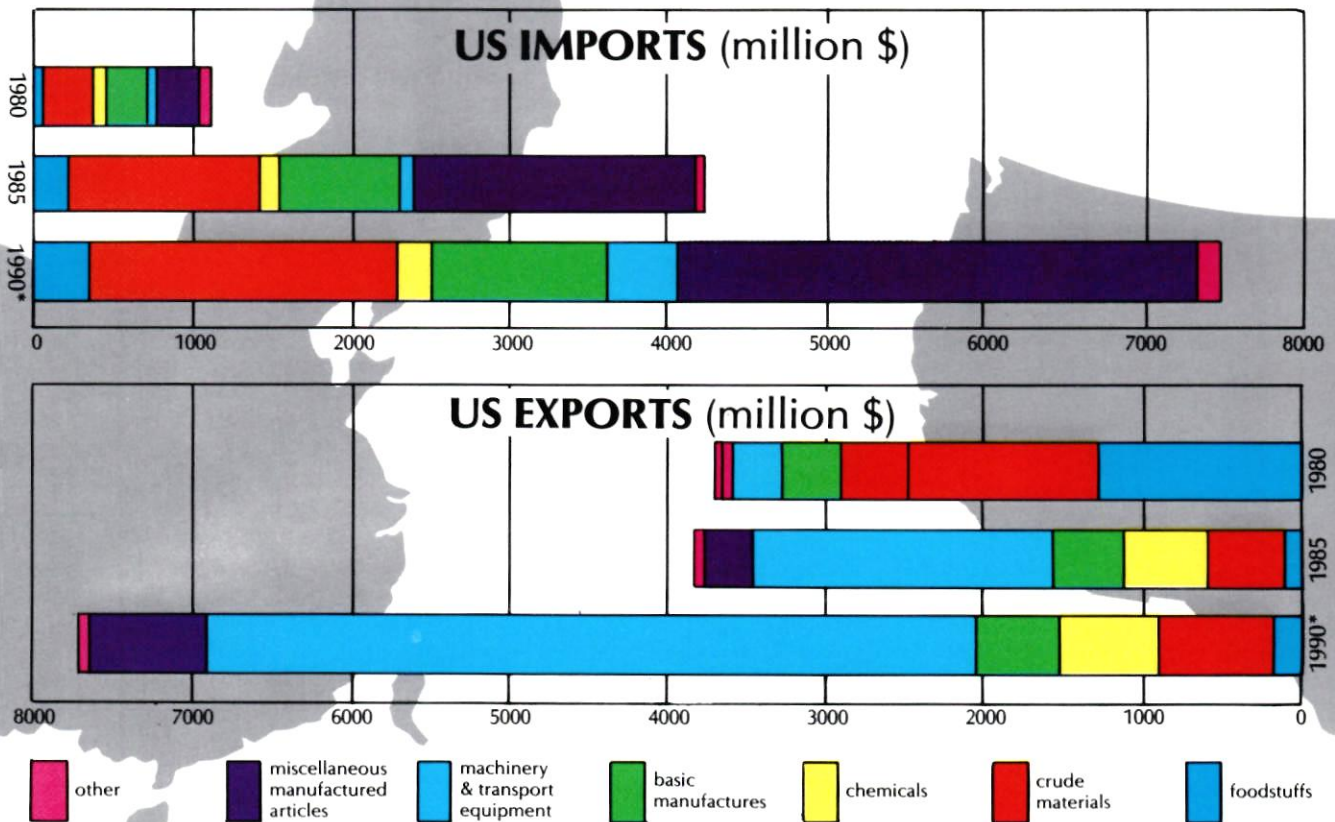
factors taken into consideration include China's foreign exchange reserves, its balance of payments position, and the level of debt service payments China is likely to face in the next five years.

No matter how carefully it is done, projecting US-China trade in 1990 is an uncertain exercise considering China's rapidly changing economic climate. Two sets of average annual growth rates during 1986-90 are therefore used in this article when predicting future levels of trade in various product categories. The high scenario assumes the highest possible growth rates, given what is known about China's economic plans, import requirements, and US competitiveness. But to support these high growth rates, China must generate sufficient export earnings overall, in order to permit the higher level of imports.

The low scenario offers a more conservative prediction, based on estimates of the future impact of such potential problems as slow growth of China's exports, continued weakness in world oil prices, sluggish Chinese demand for US capital goods and high-technology products due to hard currency shortages, and greater US import restrictions on certain Chinese products.

Under these two scenarios, projected US exports to China in 1990 range from \$6.4 billion to \$7.7 billion, with imports valued between \$5.2 billion and \$7.5 billion. The implied average annual growth rates from 1986-90 are 11 percent and 15 percent for total US exports to China, and 4 percent and 12 percent for US imports from China. The projections also provide a range of possible trade imbalances in 1990—from a \$1.1 billion US deficit to a \$2.5 billion US surplus.

US-China Trade 1980, 1985, 1990



*"High scenario" estimate

SOURCE: US Department of Commerce

US exports to China

FOODSTUFFS

Projected average annual growth rate 1986-90: 3 to 10 percent.

Projected 1990 value: \$121 to \$167 million.

Cereals and cereal preparations make up virtually all US foodstuff exports to China. Wheat alone accounted for about one-third of total US exports in 1980-82, and still accounted for about one-fifth in 1983-84 despite the Chinese decision to cut back agricultural purchases from the US in retaliation for unilateral quotas placed on Chinese textiles and apparel. But China was able to drastically cut wheat imports after three consecutive record harvests in 1982, 1983, and 1984—and as a result Chinese purchases of US wheat dropped sharply last year to only 2.5 percent of total US exports to China.

Although wheat production declined in 1985 as a result of bad weather and increasing numbers of farmers shifting to more profitable cash crops, China's short-term de-

mand for foreign wheat is expected to remain small. Increases in domestic production will come from higher productivity and stronger governmental incentives to grow wheat. But China may be an important US wheat buyer in the long run because grain production is vulnerable to adverse weather conditions and demand will increase as wheat-based foods are introduced in the predominantly rice-consuming areas of southern China. Moreover, imports of some grain through coastal ports will ease the burden on the domestic transport system.

US sales of other feed grains and livestock are likely to grow. To expand the livestock and poultry sector, China has launched a national program to develop the feed industry. This may result in significant imports of coarse grains and protein meal, especially for south and southeast China. Hogs, beef and dairy cattle, and poultry will be imported during the next few years to improve and replace local breeds—and US-China veterinary agreements have opened

the door for an expanded American role in this sector.

US agricultural exports to China are likely to become more diverse and greater in absolute value, but not necessarily in market share. The size of US grain sales will be affected by China's harvests. If Chinese grain production continues to increase significantly, US foodstuff exports to China in 1990 are likely to remain small. On the other hand, poor weather could force China to resume substantial grain imports. But it will take a sharp drop in output for Chinese purchases of US grain to match levels attained in 1980-82.

CRUDE MATERIALS

Projected average annual growth rate 1986-90: 3 to 5 percent.

Projected 1990 value: \$661 to \$727 million.

US crude material exports to China have fallen dramatically from a 1981 total of \$1.1 billion (31.3 percent of total US exports to China), to \$570 million (14.8 percent) in 1985. In 1981 US exports of crude materials to China consisted primarily of

agricultural products, such as cotton, soybeans, and soybean oil, with synthetic fibers and wood pulp also exported in significant quantities. Since 1982 US deliveries of these products have either declined sharply or ceased entirely. Although Chinese purchases of logs and lumber grew from \$41 million in 1980 to \$328 million in 1985, shrinking soybean

and textile fiber exports overwhelmed these gains.

Crude material exports are unlikely to return to 1981-82 levels during the next five years. Domestic production increases in recent years have led to large surpluses of both cotton and soybeans, which China is now offering for export. Barring major natural disasters, China is not

expected to resume large-scale imports of US cotton and soybeans.

A large quantity of synthetic fibers was imported in 1984 so that imports were cut off almost entirely during much of 1985. Imports are now returning to realistic levels, but several major new fiber complexes are expected to come onstream during the next five to 10 years.

Logs and lumber will continue to lead the crude material category, as China's demand for timber products remains strong due to slow growth in domestic production and the burgeoning number of construction projects. While timber imports have recently dropped, this is a temporary cutback due to foreign exchange constraints. When China resumes purchasing, it is expected to continue buying wood pulp from the United States. Exports of metalliferous ores, metal scrap, and cattle hides may grow modestly over the period.

CHEMICALS

Projected average annual growth rate 1986-90: 3 to 5 percent.

Projected 1990 value: \$596 to \$656 million.

Chemicals' share of US exports to China increased steadily from 10 percent in 1980 to 22 percent in 1984. The share, however, declined to 13.3 percent in 1985 due to a significant drop in fertilizer sales. Future purchases of US fertilizers will depend on China's domestic production levels, particularly of high-quality fertilizers. The United States has also sold insecticides to China since 1978, and China's efforts to improve agricultural productivity should ensure continued sales of these products.

Plastic resins sales reached a peak of \$237 million in 1982, and declined sharply to \$92 million in 1983, largely because of excess inventories in China. US shipments rebounded to \$234 million in 1984, and remained at \$228 million in 1985. Sales for most plastics will remain strong because domestic production increases are unlikely to keep up with growing demand.

Over the next five years US chemical exports to China should continue their upward trend. The pace of growth for most chemicals will largely depend upon the availability of foreign exchange. Since chemicals are not a top industrial priority, they tend to be more sensitive to foreign exchange constraints than some other categories, such as machinery.

Table 1
Commodity Composition of US Exports to China, 1980-86
(million dollars)

	1980	1981	1982	1983	1984	1985	Jan.-June 1986
Foodstuffs	1,265	1,334	1,239	541	580	104	16
Cereal and cereal preparations	1,264	1,332	1,236	536	578	97	6
Crude materials	1,258	1,128	597	298	467	570	224
Hides, skins, and furskins, raw	13	7	11	4	22	30	12
Oil-seeds and oleaginous fruit	156	130	63	0	a	13	19
Crude rubber (incl. synthetic and reclaimed)	5	5	3	5	9	9	9
Cork and wood	41	99	217	234	287	328	123
Pulp and waste paper	67	69	18	21	18	19	10
Textile fibers and their waste	895	791	273	31	99	122	25
Metalliferous ores and metal scrap	5	a	a	a	21	43	16
Animal oils and fats	16	2	6	0	0	0	a
Fixed vegetable oils and fats	58	20	0	0	7	a	0
Chemicals	381	406	496	353	644	514	197
Organic chemicals	40	44	39	25	71	87	39
Inorganic chemicals	22	6	9	20	20	12	16
Fertilizers, manufactured	153	131	147	168	267	152	18
Artificial resins and plastic materials	120	170	237	92	234	228	109
Chemical materials and products	46	53	61	46	46	28	9
Basic manufactures	428	447	275	220	189	370	91
Leather, leather manufactures, n.e.s., and dressed furskins	49	64	65	26	39	63	13
Paper, paperboard, and articles	130	61	36	41	32	27	11
Textile, yarn, fabrics, made-up articles, and related products	134	284	128	17	46	141	42
Iron and steel	42	8	10	7	4	12	7
Nonferrous metals	24	10	23	94	34	54	3
Manufactures of metals, n.e.s.	42	20	7	31	28	67	10
Machinery and transport equipment	358	212	217	587	910	1958	1070
Power generating machinery and equipment	14	11	8	56	29	88	54
Machinery specialized for particular industries	63	67	71	89	196	482	201
Metal-working machinery	7	4	3	25	23	55	60
General industrial machinery and equipment, n.e.s. and machine parts, n.e.s.	35	34	34	47	61	153	83
Office machines and automatic data processing equipment	31	22	36	51	102	190	98
Telecommunications and sound recording and reproducing apparatus and equipment	8	16	12	18	26	44	32
Electrical machinery, apparatus and appliances, n.e.s. and electrical parts, thereof	18	21	25	43	53	101	67
Road vehicles (including air cushion vehicles)	18	7	9	22	63	99	65
Other transport equipment	164	29	19	236	356	745	409
Miscellaneous manufactured articles	56	71	78	166	202	319	166
Professional, scientific, and controlling instruments and apparatus, n.e.s.	46	55	65	145	182	282	129
Photographic apparatus, equipment and supplies, and optical goods, n.e.s., watches and clocks	2	5	4	5	4	8	5
Miscellaneous manufactured articles, n.e.s.	6	8	8	16	12	27	28

SOURCE: Department of Commerce statistics, SITC classifications
Note: a-Less than \$500,000

BASIC MANUFACTURES

Projected average annual growth rate 1986-90: 3 to 5 percent.

Projected 1990 value: \$429 to \$472 million.

Due to the strong performance of textile yarn and paper products, US exports of basic manufactures peaked in 1980-81, then steadily declined. This trend was reversed in 1985 as China bought more textile yarns and metals manufactures.

Chinese industrial demand for intermediate goods will grow during the Seventh FYP, probably resulting in some limited gains for US exports. Chinese industrial producers, however, will generally rely on domestic sources of semi-manufactured goods. Only when domestic supplies are inadequate will China turn to imports.

MACHINERY AND TRANSPORT EQUIPMENT

Projected average annual growth rate 1986-90: 15 to 20 percent.

Projected 1990 value: \$3.938 billion to \$4.872 billion.

US exports of machinery and transport equipment grew from 27 percent of total US exports to China in 1983 to 50.8 percent in 1985. Since 1983, transport equipment, including aircraft and locomotives, has accounted for over one-third of US machinery and equipment exports to China. Mining and oil-drilling equipment, office machines, and automatic data processing equipment are also high on the list. Other items experiencing steady increases in sales over the past few years include general industrial machinery and equipment, telecommunications equipment, and electrical machinery.

US exports in this category appear to have particularly strong growth potential during the Seventh FYP. China is likely to step up machinery and equipment purchases to support its modernization drive. Key projects in the energy and transportation sectors will receive priority allocations of both foreign exchange and domestic capital. Foreign exchange will also be spent on industrial renovation as China increases investment in modern technology for basic industries such as machine tools, electronics, metallurgy, and chemicals. And liberalized US export control policy toward China will encourage more sales of high-technology machinery.

The growth rate of US machinery

exports to China during the next five years depends on US ability to capture significant market share in a number of key sectors: civil aviation, computers and electronics, coal and petroleum, telecommunications, rail, power generation and distribution, health care, and food processing.

MISCELLANEOUS MANUFACTURED ARTICLES

Projected average annual growth rate 1986-90: 15 to 20 percent.

Projected 1990 value: \$642 to \$794 million.

US exports of miscellaneous man-

The growth rate of US machinery exports to China during the next five years will depend on whether the United States is able to capture significant market share in key sectors: civil aviation, computers and electronics, coal and petroleum, telecommunications, railroads, power, health care, and food processing.

ufactures have grown steadily, from \$56 million in 1980 to \$319 million in 1985. Professional, scientific, and control instruments and apparatus account for nearly 90 percent of sales, with geophysical instruments leading the way. Growing purchases of these products reflect China's efforts to upgrade its scientific capabilities, the high priority placed on petroleum exploration, and the leading US role in producing these instruments. The Seventh FYP places even greater emphasis on scientific research. Although the petroleum exploration program may be affected by the recent decline in world oil prices, demand for US instruments should still increase overall.

US imports from China

FOODSTUFFS

Projected average annual growth rate 1986-90: 8 to 12 percent.

Projected 1990 value: \$267 to \$321 million.

US foodstuff imports from China grew at an average annual rate of over 20 percent from 1980 to 1985, and now constitute about 5 percent of total imports from China. Mushrooms are the largest single product imported, with tea, fruits, tubers, and fish products other major items.

US imports of Chinese foodstuffs should continue to grow at a healthy pace, with potential for significant expansion in processed food. As China acquires modern food production and processing technology and greater marketing sophistication, it may become an important supplier of processed vegetables—canned, frozen, and dehydrated—to the US market. China could also supply more canned pineapples and peaches, apple concentrate, and fruit pulps and purees.

CRUDE MATERIALS

Projected average annual growth rate 1986-90: 2 to 10 percent.

Projected 1990 value: \$1.329 billion to \$1.939 billion.

Since 1980 crude materials have constituted between 24 and 32 percent of US imports from China each year. More than 80 percent of these imports consist of crude oil and gasoline, an important source of Chinese export earnings from the United States. The value of future Chinese petroleum and petroleum product exports to the United States will depend on domestic demand for energy products and world oil prices.

Chinese exports of other crude materials have included natural barium sulfate and carbonate, and metal ores and concentrates—mainly tungsten and bauxite. The United States also imports a variety of crude animal and vegetable materials from China, including bristles and feathers. US demand for these crude materials is not expected to increase substantially over the next few years so purchases will remain close to current levels.

CHEMICALS

Projected average annual growth rate 1986-90: 3 to 7 percent.

Projected 1990 value: \$205 to \$248 million.

US imports of Chinese chemical

products have grown steadily since 1976, but their proportion of total imports has remained around 5 percent. Leading this category are fireworks, salts of metallic acids, essential oils, and medicinal products. Imports of Chinese chemical products should continue to rise, but not faster than the average growth rate for all exports to the US.

BASIC MANUFACTURES

Projected average annual growth rate 1986-90: 5 to 12 percent.

Projected 1990 value: \$849 million to \$1.172 billion.

Basic manufactured goods now constitute about 17 percent of total US imports from China. Textile yarn, fabrics, and related products account for over half of this total. Although

China will continue to export these products, sales could be inhibited by protectionism in the United States.

Other basic manufactures may fare better. US purchases of pottery, non-ferrous metals, metals manufactures, and other intermediate products may increase. The rate of growth will depend on the performance of the US economy and the extent to which China can expand and diversify production to meet export demand.

MACHINERY AND

TRANSPORT EQUIPMENT

Projected average annual growth rate 1986-90: 25 to 35 percent.

Projected 1990 value: \$296 to \$435 million.

US imports of machinery and transport equipment from China have never been large, although their share in total imports from China has increased steadily—from 0.5 percent in 1980 to 2.3 percent in 1985. Chinese machinery exports should grow, since the Seventh FYP emphasizes the export of machine tools and electrical products. But most Chinese products will continue to be better suited for uses in less developed countries than in the United States.

MISCELLANEOUS

MANUFACTURED ARTICLES

Projected average annual growth rate 1986-90: 3 to 12 percent.

Projected 1990 value: \$2.150 billion to \$3.269 billion.

Miscellaneous manufactures, the largest category of US imports from China, accounted for 44 percent of Chinese exports to the US in 1985, up from 36 percent in 1980. Apparel and clothing accessories made up over two-thirds of miscellaneous manufactured imports from 1980-84 and 57 percent in 1985. Other major items include toys, footwear, travel goods, furniture, and a variety of other light manufactures and handicraft products. Imports of toys, games, and sporting goods surged from \$19 million in 1983 to \$130 million in 1984 and \$287 million in 1985. Potential for toy and handicraft sales will remain strong.

Chinese apparel exports will continue to be restricted by quotas, and other products may also face US import restrictions. Prospects for expanding exports in the miscellaneous manufactures category will depend on China's ability to develop new product lines to meet US market needs, while relying less on items that might spur protectionist measures. 完

Table 2
Commodity Composition of US Imports from China, 1980-86
(million dollars)

	1980	1981	1982	1983	1984	1985	Jan.-June 1986
Foodstuffs	65	108	135	129	162	182	109
Fish, crustaceans and mollusks, and preparations, thereof	7	25	19	12	21	32	35
Cereals and cereal preparations	3	4	4	5	5	6	3
Vegetables and fruit	25	44	59	58	77	75	33
Sugar, sugar preparations, and honey	8	9	8	9	6	8	8
Coffee, tea, cocoa, spices, and manufactures, thereof	15	19	37	34	40	47	23
Beverages	2	2	3	5	5	4	5
Crude materials	300	657	774	589	794	1204	524
Textile fibers and their waste	13	19	16	14	17	16	6
Crude fertilizers and crude minerals	41	53	60	47	57	53	17
Metalliferous ores and metal scrap	37	52	25	11	17	32	17
Crude animal and vegetable materials, n.e.s.	56	49	42	35	39	41	
Petroleum, petroleum products, and related materials	149	321	625	468	656	1052	457
Chemicals	107	134	143	145	171	177	100
Organic chemicals	16	26	26	34	45	35	23
Inorganic chemicals	33	39	38	17	33	41	17
Medicine and pharmaceutical products	10	20	20	26	23	28	13
Essential oil and perfume materials, toilet, polishing, and cleaning preparations	14	11	14	16	16	15	8
Explosives and pyrotechnical products	26	28	36	33	35	42	30
Chemical materials and products, n.e.s.	8	9	8	13	10	10	5
Basic manufactures	246	394	407	425	607	665	357
Leather, leather manufactures, n.e.s., and dressed furskins	1	3	2	3	6	3	2
Cork and wood manufactures (excluding furniture)	5	6	6	8	8	10	4
Paper, paperboard, and articles of paper pulp, of paper or of paperboard	2	3	3	3	4	11	3
Textile, yarn, fabrics, made-up articles, and related products	149	252	239	255	392	399	251
Nonmetallic mineral manufactures, n.e.s.	19	33	40	50	65	59	31
Iron and steel	a	6	7	3	3	3	5
Nonferrous metals	44	44	45	31	35	80	18
Manufactures of metals, n.e.s.	26	46	63	73	91	97	42
Machinery and transport equipment	6	44	48	46	71	97	52
Machinery specialized for particular industries	a	a	5	6	7	7	3
Metal-working machinery	1	4	5	5	4	3	2
General industrial machinery and equipment, n.e.s. and machine parts, n.e.s.	2	30	20	14	16	14	7
Telecommunications and sound recording and reproducing apparatus and equipment	a	4	6	10	29	36	16
Electrical machinery, apparatus and appliances, n.e.s. and electrical parts, thereof	2	3	5	3	8	20	15
Miscellaneous manufactured articles	417	650	916	1133	1552	1855	1197
Furniture and parts, thereof	10	19	29	34	38	44	23
Travel goods, handbags, and similar containers	3	16	30	45	101	154	90
Articles of apparel and clothing accessories	278	434	657	840	999	1050	768
Footwear	21	37	42	38	48	61	41
Miscellaneous manufactured articles, n.e.s.	103	140	154	169	355	532	267

SOURCE: Department of Commerce statistics, SITC classifications
Note: a-Less than \$500,000

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Imports from China at Issue

An overview of the application of US trade laws to China

Phillip D. Fletcher

A number of US laws attempt to insulate the United States from the effects of unfair trade practices by foreign manufacturers and exporters. Since many of China's exports to the United States—most notably textiles and steel—have the potential to displace US jobs, domestic manufacturers have increasingly looked to these trade laws for relief.

The challenge facing the US is to see that these trade laws are applied fairly to nonmarket economies in general, and to China's increasingly hybrid economy in particular. Drafted in large part to address trade conflicts among the major Western trading countries, these laws are in some respects ill-equipped to remedy the problems posed by growing US imports from China. As a result, the manner in which the trade law statutes are applied to China and other nonmarket economies is under review in the courts and the subject of debate in Congress. The outcome of these developments could restrict future trade with China.

The case of dumping

Foremost among the US trade remedies being applied to China is the antidumping law. A foreign industry is said to have "dumped" goods if these goods are sold at less than "fair value" in the United States and if such sales consequently cause or threaten material injury to a domestic industry. In general, goods are considered to be sold at less than fair value when their sales price in the US is lower than the price at which they are sold in the country of origin (their "foreign market value"), adjusted for differences in the quality and type of goods and their conditions of sale. If goods are found to be "dumped," a customs duty is im-

posed equal to the difference between the fair value and the price at which the product is sold in the United States, i.e., the "dumping margin."

Antidumping cases consist of parallel proceedings brought before two agencies: the International Trade Administration (ITA) of the US Department of Commerce and the US International Trade Commission (ITC), an independent federal agency whose members are appointed by the president. To prove an antidumping case and be granted relief, the petitioner (generally a domestic firm, industry, or trade union) must obtain both an affirmative dumping determination from the ITA and an injury determination from the ITC.

Fourteen antidumping investigations since 1980 have been aimed at imports from China, one of them currently pending. Nine cases resulted in final antidumping orders, with dumping margins determined by the ITA ranging from 2.5 percent in the 1980 menthol case to 127.07 percent in the 1985 paint brush investigation (see table). The dumping margins on China cases have averaged approximately 40 percent overall.

The art of defining 'fair value'

Fair value is never easy to determine, but for nonmarket economies it is particularly burdensome. The Commerce Department has consistently stated that, in nonmarket economies such as China, the government's role in setting relative prices undermines the validity of the cost and price information used to deter-

mine market value. Various Chinese respondents have countered that certain sectors of China's economy are increasingly governed by market forces and that cost and price information supplied by those sectors should be the basis for determining foreign market value. In a recent dumping investigation involving petroleum wax candles, the ITA acknowledged that substantial economic reforms have been introduced in China since late 1984—but on balance concluded that China remains, for purposes of the investigation, a nonmarket economy.

As an alternative method of determining the value of goods from nonmarket economies, the law provides that foreign market value can be calculated by reference to a surrogate country. The ITA is authorized to choose a market-oriented third country whose level of economic development is deemed similar to the country under investigation. Using criteria such as per capita gross national product, the ITA has found that price and cost structures in countries such as Egypt, India, Indonesia, Morocco, Pakistan, the Philippines, and Thailand are comparable to those of China. If relevant information is not available from those countries, other countries such as Argentina and South Korea have been used as the best available surrogates. The ITA prefers to use price information from a surrogate country, but can also construct fair value using cost information from the surrogate, adjusted for known differences in material and labor costs.

Problems with the dumping law

The theory behind determining fair value for nonmarket economies seems reasonable; Commerce need

Phillip D. Fletcher is an associate with the Washington office of Milbank, Tweed, Hadley & McCloy.

only find a comparable third country to act as a surrogate and an industry producing similar goods within that country. But the difficulty of comparing macroeconomic indices in fundamentally different economies undermines the value of this method in practice. China's comparative advantage in various labor-intensive industries, for example, is difficult to replicate in any surrogate country, and the relative cost of other inputs may differ greatly across regional and national boundaries. As a result, the procedure leaves in doubt the validity of using a surrogate to determine fair value, and negates any advantage China may enjoy in a particular case as the lowest cost manufacturer of the goods under investigation.

Administering the surrogate country approach is also difficult. Industries in free market countries often refuse to cooperate as surrogates for antidumping investigations, having learned from the example of the Finnish company that aided in an antidumping proceeding only to find itself the target of a new antidumping investigation. As the availability of cooperative surrogates diminishes, the ITA is often forced to determine China's dumping margins by relying on price information obtained from noncomparable surrogate countries or referring to the price charged to the United States by the most comparable foreign competitors.

Criticism of the antidumping law as applied to China and other nonmarket economies has come from many directions. Chinese exporters object to the law because, among other things, the selection of a surrogate is often arbitrary and too unpredictable to indicate what minimum price level will be acceptable in the future. Their US and foreign counterparts, in turn, express concern that the law provides China with a safe-harbor as long as Chinese domestic costs are above those of the available surrogate countries. And the ITA argues that the surrogate country approach is unworkable due to the difficulty of identifying appropriate surrogates—a problem exacerbated by the short time permitted the ITA to make its determination (most cases are completed well within a year). As a result of this mounting dissatisfaction, it appears likely that some change in the law will take place.

Countervailing duties—soon to be applied to nonmarket economies?

The second major US trade remedy aimed at imports is the countervailing duty law, which attempts to counteract "bounties" or "grants" conferred by foreign governments on their export industries. Although there is general agreement that subsidies can distort world trade, there is far less agreement over what constitutes a subsidy.

In the ITA's view, a subsidy is essentially a governmental intervention that distorts the allocation of resources within the economy. Since centralized economic planning is pervasive in nonmarket economies, the ITA has concluded that it is impossible to determine how resources

would have been allocated if a market had operated, and has thus far refused to apply the countervailing duty laws to nonmarket economies.

Countervailing duty cases, like antidumping cases, are generally reviewed by both the ITA and ITC. But countries such as China that are not signatories to the Subsidies Code of the General Agreement on Tariffs and Trade (or that have not assumed similar obligations on a bilateral basis), would not enjoy the benefit of an ITC injury test in countervailing duty proceedings. Although some nonsignatory countries, such as Mexico, have been granted an injury test by entering into a bilateral agreement with the United States, there appears little prospect that China will be able to negotiate a subsidies agree-

DUMPING INVESTIGATIONS INVOLVING PRODUCTS FROM CHINA

Product	ITA Initiation Date	Surrogate Country	Weighted-Average Dumping Margin	ITC Determination
Menthol	7/2/80	Paraguay	2.5%	Negative (final)
Greige Printcloth	9/1/82	Thailand	22.4%	Affirmative (final)
Shop Towels	9/17/82	Indonesia	36.2%	Affirmative (final)
Canned Mushrooms	11/16/82	Indonesia	None	Terminated
Potassium	3/18/83	Thailand	39.63%	Affirmative (final)
Chloropicrin	4/2/83	India	58%	Affirmative (final)
Barium Carbonate	11/18/83	Thailand	None	Terminated
Barium Chloride	11/18/83	Thailand	14.5%	Affirmative (final)
Paint Brushes	3/15/85	Sri Lanka ¹	127.07%	Affirmative (final)
Iron Castings	6/10/85	(see below) ²	11.66%	Affirmative (final)
Wire Nails	7/3/85	South Korea	6.33%	Affirmative (final)
Wax Candles	9/30/85	Malaysia	54.21%	Affirmative (final)
Steel Pipes	12/16/85	Argentina	30.00%	Negative (final)
Cookware	12/31/85		(pending)	Affirmative (preliminary)

¹ Trade weighted average price was also used to establish surrogate prices for certain types of brushes.

² Average f.o.b. values from Italy, Japan, Switzerland, Taiwan, and the United Kingdom from March-August 1985.

SOURCE: Federal Register

ment with the US in the near future. Should countervailing duty laws eventually be applied to China, therefore, petitioners would only need to obtain confirmation of a subsidy from the ITA, but could avoid the burden and cost of proving injury before the ITC.

US industries have on several occasions tried to reverse the ITA's position that countervailing duties should not be applied to nonmarket economies. The first attempt to apply the countervailing duty law to a nonmarket economy was made in 1983, when the American Textile Manufacturers Institute and two unions filed a broad petition against virtually all textile and apparel products imported from China. The case was filed in an effort to achieve the protection for the domestic industry that the Reagan administration had not conferred in bilateral negotiations with China the year before. However, the ITA never reached a final determination in the case: the parties reached a settlement on the day the determination was due.

The ITA had a second opportunity to address the issue in 1984, when it made negative preliminary determinations in two countervailing duty cases brought against wire rod imports from Czechoslovakia. The agency held to its position that subsidies are market concepts and thus limited to market economies.

However, in an appeal to the federal Court of International Trade (which has jurisdiction over the ITA), the court reversed the ITA's decision in July 1985. The court held that a subsidy is conveyed in a nonmarket economy if a domestic industry receives preferential treatment, determined by comparing the benefits accorded an individual industry to those accorded the economy as a

whole. Although the Reagan administration has appealed this decision, the prospect that countervailing duty laws may soon be applied to nonmarket economies looms large. If the administration loses the appeal, a number of subsidy cases are likely to be introduced fairly soon. Many novel theories may be tested since the law itself does not define what constitutes a countervailable subsidy in a nonmarket economy. Challenges will be made, for example, against exchange rate preferences, capital allocations, tax preferences, and preferential access to raw materials. Chinese exporters may therefore have to litigate complex and novel issues—without recourse to the ITC for an injury determination.

Section 406 targets communist nations

The third major trade relief law applicable to China, Section 406 of the Trade Act of 1974, deals specifically with imports from communist countries that are found to be injuring US industries—whether or not such imports are traded at a fair price in the United States.

At the time of enactment, Congress was extremely concerned that communist countries, with their centralized controls over pricing and distribution, could flood the US market with imports more quickly than could free market economy exporters. Section 406 requires that three conditions be satisfied before the ITC can make an affirmative determination and address the issue of relief. First, imports from the country in question must be increasing rapidly. Second, the domestic industry producing an article similar to or directly competitive with the imported article must be materially injured or threatened with material injury. And third, the rap-

idly increasing imports must be a significant cause of the material injury or threat.

If the ITC recommends a remedy, such as tariffs or quotas, the president must accept or reject the recommendation. The president's discretion under the law is sufficiently broad to permit his decision to be influenced by political considerations outside the scope of the investigation.

Four of the 10 investigations against communist countries conducted under Section 406 have been directed against China (*see table*). In two cases the ITC declined to recommend relief. However, in the case of *Clothespins from the PRC*, the ITC recommended that the president impose quotas. The president ultimately concluded that imports from China were only part of the problem, however, and instead recommended a quota against all imports of clothespins to the US. In the fourth case, *Canned Mushrooms from the PRC*, the ITC was evenly divided on the issue of recommending a remedy, and President Carter ultimately declined to grant relief. Thus, the danger that Section 406 poses to Chinese exporters lies more in its potential than in its current application—a potential that could be realized if various amendments to the law now under consideration are adopted.

New proposals under consideration

Congress has become increasingly concerned about the difficulty of applying trade laws to nonmarket economies. In 1984 and again this year it has tried to arrive at a better procedure to govern such cases, an effort that the administration now agrees is necessary.

Senator John Heinz (R-Pa.) has proposed an alternative approach to handling dumping cases brought against nonmarket economies. Under the Heinz bill, part of the omnibus trade legislation now pending before the US Senate, the ITA would make an annual determination as to which countries constitute nonmarket economies, reviewing factors such as currency convertibility and labor mobility. Products under investigation from such countries would be subject to a duty calculated by comparing the price of the product as imported into the United States to a benchmark price. The

SECTION 406 INVESTIGATIONS INVOLVING CHINA

Product	Decision Date	ITC Vote	Determination	Presidential Action
Work Gloves	March 1978	3-2	Negative	No Remedy
Clothespins	August 1978	3-2	Affirmative	No Remedy
Ceramic Kitchenware	August 1982	4-1	Negative	No Remedy
Canned Mushrooms	September 1982	2-2	Split	No Remedy

SOURCE: US International Trade Commission

benchmark would be a trade-weighted average price of imports of similar articles into the United States from all market economy exporters (excluding those products subject to a countervailing duty or an antidumping order).

The Heinz bill may lend predictability to the antidumping law, but at a cost. Since no effort would be made to limit the fair value comparison to countries at a comparable stage of economic development, the price of Chinese goods sold in the US could be determined by comparing them to prices of goods made in countries with higher costs. The price established by Chinese exporters would have to meet the benchmark price established for such goods to avoid liability under the law.

Even the chief merit of the proposal—its predictability—could be undermined. Import data available to the Commerce Department do not allow for differences in quality, style, or delivery times. Accordingly, the ITA would have little guidance in determining the benchmark price. There is, therefore, no reason to believe that such determinations would necessarily be more predictable than the selection of a surrogate under

current law.

The House omnibus trade bill, passed in May, does not directly address the applicability of the dumping or countervailing duty laws to nonmarket economies, but seeks instead to amend Section 406, making it easier for US petitioners to obtain relief from nonmarket economy country exports. Among other things, the bill would establish an injury test designed to be somewhere between that applicable in dumping and countervailing duty cases and that applicable in current Section 406 proceedings. It would also shift responsibility under the statute from the president to the US Trade Representative, thereby insulating the president from direct involvement and making it more likely that relief will be granted.

The Reagan Administration has raised objections to both bills and, in testimony on the Hill, has advanced an alternative proposal countering some of the provisions of the Heinz bill that the administration finds most objectionable. The proposal would allow the ITA greater flexibility in treating appropriate sectors of nonmarket economies as market economies in specific investigations.

In addition, its benchmark is set at the lowest average price charged by free market importers into the United States, a substantially lower and arguably more practical benchmark. The administration's version also limits relief in nonmarket economy cases to the antidumping laws. China would thus be spared the risk of countervailing duty actions without the benefit of an injury test.

There is no easy answer to the problem of applying US trade laws to China and other nonmarket economies. The divergence of interests among the parties involved is too great to hope for more than a workable compromise. Even this hope is dim, since this is but one of many trade issues on the congressional agenda in today's protectionist climate.

One thing does seem likely—that once a resolution of these issues has been reached in Congress and in the courts, the number of petitions for relief filed under the trade laws will increase. And if the outcome of those changes broadens the scope of relief available to domestic petitioners, the prospects for increased US-China trade will be diminished. 完

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Textile Trade Tensions

Jerome Turtola

Textiles are perhaps the most hotly debated item in US-China trade. Of the \$4.2 billion in Chinese goods imported by the US in 1985, textiles and apparel sales accounted for almost \$1.5 billion. Due to the drop in oil prices, textiles and apparel look likely to surpass petroleum as China's single largest source of revenue from trade with the United States this year according to Du Baolai, third secretary in the commercial section of the Embassy of the People's Republic of China.

As China's exports grow, pressure from US manufacturers to limit them has grown apace. Seventy-five percent of China's textile and apparel exports to the US are now subject to quotas. China has vehemently opposed these restrictions, and maintains that any further US attempts to limit textile and apparel imports could severely sidetrack trade relations between the two countries.

The renegotiation of the international Multifiber Arrangement (MFA) this July, a textile trade framework under GATT that governs 80 percent of international trade in textiles, combined with the August defeat of the Jenkins bill veto override in the US House of Representatives, have temporarily solved some problems, but the heated debates between US importers, retailers, and China on the one hand, and US manufacturers on the other, are likely to continue. The background to the dispute is important to an understanding of ongoing tensions in US-China trade.

The Multifiber Arrangement

The MFA is an umbrella agreement that establishes basic principles for negotiating bilateral textile accords between signatory nations. The bilaterals, in turn, set specific quotas and growth rates for imports of fi-

bers, fabric, and apparel.

On August 1, 1986, more than 50 major textile trading nations agreed to MFA IV, a textile trade protocol that will regulate textile trade for the next five years. The new protocol strengthens control over import surges from textile suppliers, as well as procedures for dealing with fraud and quota circumvention.

The newly signed MFA also covers a greater range of products than previous agreements. The new list extends beyond cotton, cotton blends, and synthetics to silk blends, linen, and ramie, but does not cover jute, blends of over 70 percent silk, and abaca.

This broader fiber coverage directly affects China's exports to the US. The US will be able to place consultation calls (*see* glossary) on apparel under the newly covered fibers that will ultimately lead to quotas in new import categories. Thus the full impact of MFA IV has yet to be felt; it will come into play late next year when US and Chinese negotiators sit down to draw up a new bilateral agreement.

At the time it was established in 1974, the MFA was not intended to be a permanent structure. It represented a compromise between countries seeking to restrain imports of particular textile products and exporting countries seeking greater access to developed country markets. However, with the signing of the fourth round, developing countries fear that the MFA has become an es-

tablished institution that shows no signs of being phased out.

Textile trade bilaterals

Implementation of the MFA guidelines depends on specific bilateral agreements between MFA signatory nations that set aggregate ceilings, growth rates, and specific quotas for textile trade. The US currently has bilateral agreements with 27 MFA signatories as well as nine non-signatory nations.

In the US, responsibility for supervising textile bilateral agreements, and proposing and implementing import restraint procedures rests with the Committee for the Implementation of Textile Agreements (CITA). CITA consists of representatives from the departments of Commerce, State, Labor, and Treasury, and the office of the US Trade Representative, who meet weekly to review import data and determine whether to request consultations with an exporting country.

The US has negotiated two bilateral agreements with China, the first in 1980 and the second in 1983. The initial agreement imposed specific limits on eight categories of cotton and synthetic fiber textile and apparel products. But China successfully shifted sales to the US from items in controlled to noncontrolled categories. As a result, the US sought a more restrictive second bilateral with China. The current agreement placed 33 items under specific quotas at the outset. The agreement's consultation mechanism also allows consultation calls to be placed on non-quota categories in which the US has experienced a surge in imports.

The number of consultation calls is growing rapidly. According to the Office of Textiles at the Department of Commerce, the US, using the call mechanism, has attempted to place

Jerome Turtola, a graduate of the Johns Hopkins University School of Advanced International Studies, worked at the National Council for US-China Trade in 1985-86 and is currently pursuing a career as an international trade analyst. Karen Green assisted in the research of this article.

42 additional categories under quota above the 33 already in place in the period between the signing of the second bilateral in 1983 and mid-1986. Of these, 23 have resulted in the establishment of new quotas, 8 have been dropped, and 11 remain outstanding. Thus there are now 67 items under quota, covering almost 75 percent of US-China textile trade.

China's demands

China has actively sided with developing countries on most textile trade issues. In March 1986 China hosted a strategy session for 128 representatives from 23 textile-exporting nations to develop positions on textile and apparel trade and protectionism in preparation for the MFA renewal talks. At the conference, Chinese Minister of Foreign Economic Relations and Trade Zheng Tuobin stated the developing countries' position that the MFA, rather than allowing for a multilateral, progressive liberalization of textile trade, continues to be used as a nontariff barrier to trade. Citing the fact that 80 percent of all American imports of textiles from Third World suppliers were under restriction, Zheng warned that this trend would inevitably erode prospects for growth in the world economy.

MFA IV does not meet many of China's demands. It does not make a firm commitment to relaxing restrictions on trade in textiles and apparel. Specifically, it does not exempt yarn, children's wear, and miscellaneous products such as luggage from coverage. China and other developing countries had sought to release these products from coverage, arguing that they are either not competitive with US-made equivalent products or not particularly damaging to the developed nations.

More important, China fought hard against the inclusion of ramie in the agreement. The world's largest producer of ramie, China promoted exports of this fiber as a result of the stringent quotas on chief-value-cotton garments. By blending 55 percent ramie with 45 percent cotton, China was able to produce an acceptable natural fiber garment not subject to quota constraints—and sales of ramie soared. Thus the US insistence on including ramie in MFA IV curtails a burgeoning Chinese export item.

A SHORT GLOSSARY OF TEXTILE AND APPAREL TRADE TERMS

Bilateral: A written agreement governing trade between two countries.

Carryforward: Allows an exporting country to allocate to the present year a portion of next year's ceiling. All borrowing must be accounted for by a decrease in the next year's ceiling.

Carryover: Allows an exporting country to apply part of a category's ceiling unused in any one agreement year to the same category's ceiling in the subsequent year.

Category: An apparel or textile product or aggregation of similar products for import control purposes.

Ceiling: The total amount of square yard equivalent (SYE) a country can export to the US in any year under the terms of its bilateral. Also known as aggregate ceiling or aggregate limit.

Consultation call: Occurs when imports in a certain category approach a set limit such that the US government requests a consultation to establish an import level.

Country of origin: For import control purposes, US law requires all garments to specify the country of manufacture or the country where last substantially transformed.

Embargo: A prohibition on the entry of additional textile and apparel articles in a given category, imposed when a quota has been filled.

Overhang: The difference in volume between what is actually shipped in a category in any one agreement year and the allowable ceiling for that category in any year.

Quota: Under the MFA, a quota is the limit set on the trade in any category, group, or aggregate ceiling.

Shortfall: Occurs when imports fall short of the restraint limit for an aggregate ceiling, group, or category.

SL: A specific limit on the quantity of a category a country can ship to the US. SLs are designated in a bilateral agreement, and normally cannot be changed unless both parties agree.

Substantial transformation: Occurs when an article is significantly changed through manufacturing or processing. When processed in more than one country, textiles are considered a product of the country where they were last transformed.

Surge: A sharp increase in imports from one year to the next that disrupts or threatens to disrupt the domestic market. A surge may occur when a quota is underfilled one year and filled the next.

Swing: The transfer of unused quota from an underutilized category to a nearly full category, enabling the exporting country to ship additional goods.

SYE: The square yard equivalent of imports of apparel and textile articles; an overall measure of trade in physical quantity. With the exception of broadwoven fabrics, all apparel and textile products can be measured in SYE through use of a conversion factor.

Transshipment: The export of goods from one country that are the product of another country. Combined with fraudulent country-of-origin labeling, transshipment can be used to circumvent quota limits.

Visa and Certification System: A certification by the exporting country's government that the articles originated or were produced in that country. Generally called an export license in China.

Sources: *The Multifiber Arrangement, 1980-84*. US ITC, May 1985; *Apparel Trade Primer*, (Arlington, VA: AAMA, 1980).

China may file an official objection to ramie's inclusion in the agreement. The US counters that if China does so, the US will file a counterobjection. This would be the first such incident in the history of the MFA and would probably result in the abrogation of that portion of the agreement between the two parties.

China also argues that, since PRC textiles occupy less than 10 percent of total US textile imports in terms of square yardage, and about 7 percent in dollar value, they are not large enough to disrupt the US domestic market. Curtailment of those imports, on the other hand, does seriously damage China's economy—an economy in which textiles now account for one-quarter of total export earnings—\$4.36 billion last year alone.

The Reagan administration's approach

To stem the tide of foreign textile and apparel imports, the Reagan administration has pursued a middle road that favors more restrictive multilateral and bilateral textile accords, yet generally opposes protectionist legislation. But growing industry pressure has led some congressional representatives to view domestic legislation as an alternative to renegotiating multilateral and bilateral tex-

tile agreements.

The administration achieved its primary goal in the MFA renegotiation by obtaining restrictions on fibers previously free of restraint, but was not able to obtain specific commitments from exporting countries to phase out their textile and apparel industry subsidies and other "market distorting" practices, and to open their markets to US products.

The Reagan administration has succeeded in its second goal: early renegotiation of textile bilaterals with the country's three major suppliers (South Korea, Taiwan, and Hong Kong) to restrain imports, thereby lessening the US dependence on the outcome of MFA negotiations. As protectionist legislation awaited consideration in Congress, these countries preferred to accept the milder proposals being offered by the executive branch. The US and Hong Kong thus agreed on a new textile and apparel bilateral in June, allowing Hong Kong's exports to grow an average of less than 1 percent per year between 1986 and 1991. A new agreement between the US and Taiwan followed on July 13 that allows Taiwan's textile and apparel exports to the US to grow only 0.5 percent for the years 1986 through 1988. And on August 4, the administration announced that it had reached a bi-

lateral textile agreement with South Korea. After numerous stalemates throughout the summer, South Korea finally agreed to limit growth of textile exports to the US to 0.8 percent a year through 1989—a substantial reduction from average growth rates of 8.6 percent between 1981–84.

According to officials at both Commerce and the USTR, the US will not seek renegotiation of its bilateral with China before it expires in 1987. China is currently categorized by the US as a developing country, and is therefore not a target for early textile bilateral negotiations. When negotiations for a third bilateral begin in 1987, however, the administration will adhere to its policy of seeking to "moderate import growth."

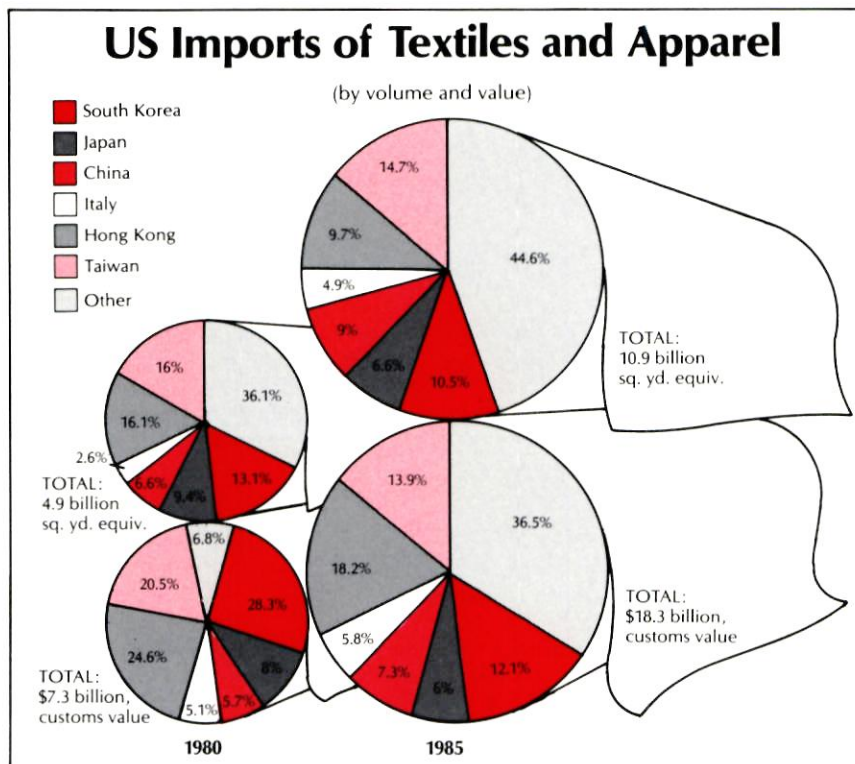
Congress takes a hard line

Recent trade legislation reflects Congress' response to growing protectionist sentiment in the US. Supporters of the Textile and Apparel Trade Enforcement Act (also known as the "Jenkins bill") saw this bill as the only way to reduce textile and apparel imports to levels that would have existed if the MFA had been effectively enforced.

The final version of the bill, which passed both houses of Congress in December 1985, would have rolled back imports from all major suppliers to 1984 trade levels, allowing most countries a 1 percent growth rate in exports to the US in subsequent years. The initial version of the bill, which used 1982 as a base year, would have cut back China's textile and apparel exports to the US to 56 percent of 1984 trade levels. Quotas were so severe that China's exports in eight categories would have been slashed by over 90 percent, and over 80 percent in 15 other categories.

Although President Reagan vetoed the Jenkins bill soon after it was passed, the issue did not die. Congressional proponents set the override vote date eight months later, timed strategically to fall only days after the expiration of MFA III and ensuring, by the threat of passage of the Jenkins bill, that a tough new MFA would be realized. The close veto override vote in the House on August 6, 276 to 149, failed to achieve a two-thirds majority by eight votes.

China joined other developing countries, importers, and retailers in



SOURCE: US Department of Commerce
Includes cotton, wool, and man-made fibers

lobbying against the legislation. It argued that the bill was discriminatory because quotas were based on trade figures from 1982, while China did not attain most favored nation status until February 1, 1980, and growth in textile exports to the US occurred in 1982–85. Consequently, China would have been harmed far more than well-established textile exporting countries. Responding to pressure from US exporters to China, the final version of the bill advanced the base year to 1984 and allowed 6 percent growth per annum for China, placing it with middle-level exporters rather than with the top three: South Korea, Hong Kong, and Taiwan.

China also maintained that the bill violated Article II of the MFA, which states that developing countries should receive more favorable terms than developed countries in textile trade. Finally, China claimed the bill violated paragraph 16 of the US-China Bilateral Textile Agreement, which states that neither country shall act to restrain trade in textile products except by mutual consultation, as required by the terms of the agreement.

The domestic textile industry

Just as China has vehemently opposed the Jenkins bill, the domestic textile industry has ardently supported it. And just as China has mustered a powerful lobby composed of Chinese government representatives and a wide spectrum of US firms opposed to protectionism, the domestic textile industry has a powerful lobby that has made its voice clearly heard on Capitol Hill, aided by the efforts of local textile and apparel manufacturers in their congressional districts.

The Washington-based Fiber, Fabric, and Apparel Coalition for Trade (FFACT) is representative of the many groups lobbying for more restrictive textile agreements. FFACT is a national organization of fiber growers and producers, textile and apparel companies, unions and workers. John Gregg, chairman of FFACT, says "The American textile and apparel industry is not looking for guarantees or assurances against foreign competition. What we're asking is that existing agreements negotiated by this administration be properly implemented, strengthened, and enforced." FFACT points to the doubling of imports into the US from all sources during the past five years.

According to Commerce Department figures, the textile and apparel trade deficit (the difference in value between imports and exports) during the first three months of 1986 reached \$5 billion, the largest first quarter on record.

The American Fiber, Textile, and Apparel Coalition (AFTAC) lobbies on behalf of industry trade associations and labor organizations representing US fiber and apparel industries. The group's most recent legislative victory was the passage of the Textile Fiber Identification Act in September 1984, which requires garments sold in the US to display labels stating the country in which the textile is produced. Carlos Moore, AFTAC chairman, wrote in a March letter to the Chief US Textile Negotiator of the US Trade Representative, that "a strengthened, less vague, and less permissive MFA is essential to the continued survival of the American fiber, textile, and apparel industries." And Dewey L. Trogdon, president of the American Textile Manufacturers Institute, reflected the industry's complaints with MFA IV when he said that "it has so many loopholes it is totally meaningless, and is no better than the old MFA, which permitted imports to

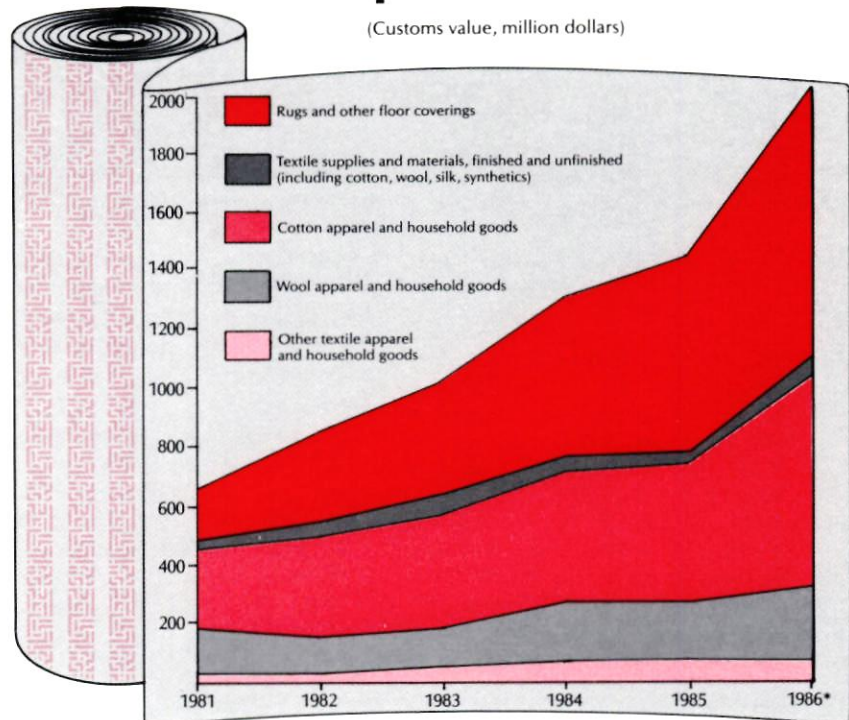
double in five years and resulted in the loss of 300,000 American jobs."

Free trade advocates

The Retail Industry Trade Action Coalition (RITAC), representing textile and apparel importers, opposes the view of textile manufacturers that MFA is to blame for industry troubles. RITAC argues that growth in textile imports is due to the concurrent US economic expansion and the high value of the dollar. It attributes plant closings to decreased demand and poor management, and lost jobs to new technologies, materials and production processes that displaced workers. According to Joseph P. O'Neill, president of the American Retail Federation and RITAC coordinator, the textile and apparel industry receives unparalleled protection from the "web of a complex international quota system." The import tariff rate for this industry is four times higher than the average for other US sectors. Cost of restraints to consumers: \$27 billion a year.

Consumers for World Trade, a national public interest organization established in 1978, joins RITAC in the call for MFA phaseout and bilateral liberalization. According to CWT, the MFA not only inflates prices to

US Textile Imports from China



*Projection based on January-June figures

SOURCE: US Department of Commerce Statistics
Figures refer to imports for consumption only

US-CHINA TEXTILE TIME LINE

September 1980. First US-China bilateral textile agreement signed. Covered PRC textile imports from January 1, 1980 through December 31, 1982. Imposed specific limits on cotton and synthetic fiber, textile, and apparel products. Controls affected 23 percent of China's cotton exports to the US in 1980. By 1982 the controls affected 15 percent of cotton textile and apparel exports. Exports of manmade fiber textile and apparel products decreased as a percentage of China's textile exports to the US from 38.4 percent in 1980 to 9.7 percent in 1982.

December 1982. Upon expiration of the first US-China bilateral, the US unilaterally imposed import quotas on 70 nation/product categories worldwide, almost half of them against China. China retaliated by sharply reducing purchases of wheat and manmade fibers from the US.

August 1983. Second US-China bilateral agreement signed. Covered period from January 1, 1983 through December 31, 1987. More comprehensive, this bilateral placed quotas on three dozen categories of textile products, as well as wool apparel products. Agreement affected 56 percent of China's cotton textile and apparel products, 40 percent of wool apparel exports, and 53 percent of manmade fiber apparel exports in 1983.

September 1983. Disappointed with the terms of the new Sino-US bilateral, US industry and labor groups filed a countervailing duty petition with the Department of Commerce against Chinese textiles and apparel, alleging that China's use of a special exchange rate for exports constituted an export subsidy. The petition was withdrawn in December, when the US announced new rules for determining whether textile imports are disrupting the US market.

December 1983. President Reagan instituted a system of "consultation calls" (*see glossary*) to control import surges in items not covered by quota.

December 1983. China became a signatory to the Multifiber Arrangement.

May 1984. President Reagan issued Executive Order 12475, authorizing new regulations to deter circumvention of the textile and apparel quota program.

August 1984. Pursuant to the Executive Order, US Customs Service promulgated regulations defining "country of origin" to enforce import quotas. Customs counted under China's quota many knitwear items that had formerly been charged to Hong Kong's quota.

September 1984. Interim country of origin regulations took effect.

March 1985. On March 19 the Textile and Apparel Trade Enforcement Act (H.R. 1562/S. 680) was introduced in Congress by Ed Jenkins (D-Ga). The bill sought to roll back import levels from all major suppliers to 1984 trade levels, allowing most countries a 1 percent growth in exports to the US in subsequent years.

December 1985. On December 3 the Jenkins bill passed both houses of Congress by a vote of 255-161 in the House and 60-39 in the Senate. President Reagan vetoed the bill on December 17.

July 1986. MFA III expired July 31.

August 1986. On August 1 over 50 nations agreed to a five-year extension of the MFA. China expressed reservations about the new pact and stated that it would examine the text carefully before deciding to sign it. The Chinese viewed the inclusion of ramie and other natural fibers as providing another avenue for placing increased restrictions on Chinese textile exports.

On August 6 the move to override Reagan's veto of the Jenkins bill failed with a final House vote of 276-149, eight votes short of the two-thirds majority needed to override the veto. Because the House failed to override, the Senate did not need to vote and the veto was sustained.

Domestic manufacturers vowed to keep pushing for import restraint legislation.

December 1987. On December 31 the second US-China textile bilateral will expire.

July 1991. On July 31, MFA IV will expire.

consumers, but reduces textile product choice and availability. More important, the restraints are counterproductive in that foreign suppliers, finding the quantity they may export limited, simply strive to raise the per-piece value. Doreen Brown, CWT president, states: "Ironically, the US industry is finding itself having to compete in a category of more expensive textile and apparel products in which it historically has had a competitive advantage." CWT maintains that, contrary to the claims of the proponents for continued protection, government indicators show that the domestic industry is performing well. The Federal Reserve Board's index of industrial production for the textile industry was up 12.1 percent in the first quarter of 1986, nearly four times greater than the increase in aggregate US manufacturing. And Commerce figures released in late July reveal that textile capacity utilization rose from 79 percent in the first quarter of 1985 to 88 percent in the same period this year. The increase reflects, in part, greater competitiveness due to the devaluation of the dollar and the fears of some retailers who prefer to source goods in the US rather than face continued uncertainty with Asian suppliers.

What looms ahead

Opinions differ on the likelihood of sharp US-Chinese confrontation over the textile issue. Some Commerce Department officials describe current relations with China as cooperative. Diana Solkoff, international trade specialist at the Office of Textiles and Apparel at the Department of Commerce, does not believe that the rapid rise in the number of consultation calls has seriously affected US-China relations. "Over the past year, we have settled quotas in a timely fashion—more so than in the past." Another Commerce official suggests that the tenor of bilateral relations may even be improving because "the Chinese realize they can't have the sky anymore."

But while the Chinese may have become more amenable to the bilateral process itself, there are many forces ready to test the uneasy peace. Pressures on the Reagan administration and Congress for increased trade protection show no sign of abating. Assuming that the US acts in accordance with the precedent it set dur-

ing negotiations with its three major suppliers, China will be called upon to further limit its textile exports to the US during negotiation of the US-China Textile Bilateral agreement next year. And the Chinese will un-

doubtedly threaten the US with retaliation as they have in the past.

In short, the US-China textile trade relationship promises to be no less stormy in the future than it has been to date. 完

A guide to the promises and pitfalls of importing garments from China



Karen Green

In recent years, Americans have increasingly tapped China as a source of inexpensive, serviceable clothes. China provided a welcome alternative to garments made in Taiwan, Hong Kong, and South Korea at a time when US quotas on these countries' goods were beginning to pose problems for American importers. China quickly became a leading supplier of apparel to the US, leaping into fourth place this year. In 1985 US-bound sales of clothing alone earned China almost \$912 million, and the figure should rise this year.

The next several years will be an important test for the "Made in China" label. Quotas and other import restrictions are not the only problem. China also faces competition from new textile suppliers such as Bangladesh, Sri Lanka, Indonesia, Turkey, and the Philippines, which are eager to increase their share of the US market. US purchasing agents complain about China's slow deliveries, poor quality control, lack of accessories, and overshipment of goods under quota. China must rectify these problems or lose ground to a new generation of apparel-exporting nations.

Sourcing garments from China

Few clothing manufacturers or retailers deal with China directly. Usually they employ garment subcontracting agents who place orders

directly with Chinese trading corporations. Most of these agents work with the China National Textiles Import and Export Corporation (CHINATEX), a foreign trade corporation under the Ministry of Foreign Economic Relations and Trade (MOFERT) and the major source of garments for foreign buyers. The jurisdiction of other Chinese corporations that export apparel is determined primarily by the raw material utilized in the production of the garment, and secondarily by the method of manufacture.

Companies wanting to import silk garments usually turn to the China National Silk Import and Export Corporation (CHINASILK), China's second largest garment exporter. Formerly part of CHINATEX, it was reorganized into an independent corporation in 1982. In addition to having exclusive rights to the sale of silk products, CHINASILK can also sell filament (as opposed to staple fiber), synthetics such as rayon, and compete with CHINATEX in such areas as synthetic dresses and blouses.

Other corporations involved in relatively minor aspects of the garment

Karen Green is the program manager for textiles, chemicals and agriculture in the Business Advisory Services department of the National Council and adviser to the Council's Import Committee. Sebastian Bonner conducted interviews in Beijing for this article.

trade include the China National Native Produce and Animal Byproducts Import and Export Corporation (for outerwear made of fur or down), the China National Arts and Crafts Import and Export Corporation (traditional minority clothing and costumes and embroidered clothing), and the China National Embroidery and Drawn Work Associated Export Corporation.

For those new to buying from China, the twice-yearly Guangzhou Export Commodities Fair remains the easiest way to compare suppliers. China's ongoing economic decentralization allows experienced agents to deal directly with the provincial branches of CHINATEX and other textile trading corporations outside the context of the fair. Agents cannot buy directly from factories, however, as allocation of quota is strictly regulated by the trading corporations and their branches (which issue export licenses to track quota).

Most experienced buyers prefer to travel to the provinces they do business with, but there are other options. Large CHINATEX branches such as those in Shanghai, Beijing, Dalian, and Tianjin now send delegations on semiannual trips to the US to visit regular customers.

CHINATEX also maintains international offices to help garment buyers. Shen Pei-Xin, deputy sales manager of knitwear for the CHINATEX office in New York, notes that his office can help inexperienced buyers select appropriate sources of supply in China. For instance, branches have developed expertise in certain products. Tianjin is known for its shirts, while Nanjing excels at corduroy. CHINATEX New York charges 1 to 2 percent commission for finding a supplier.

But as CHINASILK New York's President Han Feng-Ming points out, the trading corporations do not necessarily welcome all orders. When a CHINASILK branch receives an inquiry from a new buyer, they request a financial statement and a description of the buying firm's scope of business. "The branch wants to be sure they have a reliable partner," says Han. "If the scope of business is foodstuffs we will be reluctant to trade with them. We want to sell to specialists who understand the business and will be with us over the long term."

After a contract is signed, the pro-

vincial branch of the trading corporation involved selects a factory to produce the order. In certain cases the buyer can influence the factory selected. Judith Lubman, who runs her own company Lubman Incorporated, has imported high-quality garments on behalf of B. Altman for seven years. "We do CMT (cut, make, trim) in China, which involves supplying everything to the factory: the pattern, the material, the accessories—often even the thread. We do this because the items we produce are on the high end of the market. They have to be done quickly and correctly. The Chinese want this business. It helps them improve their production capability and understanding of our market. Even more important, they earn more. As a result, we have more say in the factory where our production will be placed."

The quota constraint

In an effort to placate domestic producers of textiles and apparel, the US government has signed a series of bilateral treaties with foreign nations that limit their exports to the American market. After arriving at acceptable limits, the foreign governments are compelled to monitor their sales and shipments to see that they do not exceed the agreed-upon levels. If excess goods are shipped, they are embargoed at the US port of entry. The US buyer may spend weeks obtaining access to the merchandise or, perhaps, never obtain it at all. Thus, US importers must rely on the Chinese to effectively carry out their responsibilities under the US-China textile agreement.

At the highest echelon, quotas are administered by MOFERT, which allocates quota shares to all of China's garment-exporting corporations. Some 85 percent of the total goes to CHINATEX. The exporting corporations then allocate most of the quota to their provincial branches based upon the branches' volume performance the previous year, overall profitability and ability to manage quota, as well as their profit margin on quota items.

During the course of the year, certain branches may prove unable to sell all quota assigned in every category. Thus, a number of minifairs are held where quota can be exchanged between branches and bought by foreign firms.

CHINATEX handles approximately 15 percent of its quota on a tender basis. Buyers place bids on categories with their preferred CHINATEX branch and the branches submit the bids to the head office. The head office allocates this portion of quota to the branches that have received the most attractive bids from buyers. The system has advantages for both the branch and the buyer: the branch receives quota that might have been allocated elsewhere and the buyer guarantees himself quota share. The disadvantage for the buyer is that the price per dozen necessary to ensure that quota is obtained in this way is almost certainly higher than it would be otherwise.

Finally, the provincial branches of the corporations distribute quota to the factories under them. Since the branches themselves sell to US buyers, quota distribution to the factories is based upon the branches' ability to sell the different categories, market demand, price levels, and the length of the relationship with the customer.

Ways around the rules

China, in conjunction with US buyers, has developed a means of circumventing quota by exporting garments made of fibers not covered under the Multifiber Arrangement or the US-China bilateral textile agreement. Since 1982 increasing numbers of garments made primarily of ramie have been imported into the United States, along with linen and silk apparel. The surge in imports of these items made US government negotiators insist upon the inclusion of these fibers in the new MFA signed August 1. Thus, when the US-China textile agreement is renegotiated in late 1987, it is likely that this loophole will be closed.

Nonetheless, items already under quota such as cotton, cotton blends, and synthetic apparel remain the most marketable, and quotas are the biggest constraint on the growth of Chinese exports to the United States. An importer new to sourcing garments in China may find that to obtain quota share at all he must buy apparel from provinces not renowned for quality, or new to exporting. Some buyers complain that they have been pressured to buy undesirable goods to ensure access to merchandise they actually want. Even established buyers may feel the pinch.

A large newcomer may place a huge order and displace an old customer.

Though not often discussed, corruption can also play a role in maintaining quota share, and some garment buyers report tacit suggestions from Chinese officials that color televisions or cash might prevent the reallocation of quota from an old customer to a new one. However, "in general the Chinese are fair with quota," according to Robert Kantor, president of Rafique Inc., an importer of better knitwear. "They are making a real effort to be taken seriously."

The problem of overshipping

Having quota share from the Chinese is no guarantee the goods will be allowed into the US, since overshipment can lead to embargoes at US customs. Christine Chang, import manager of the Abacus Group—which buys for wholesalers and retail chains—notes, "In both 1983 and 1984 we were hit with embargoes on categories 347 and 348. The goods were already on the water when the quotas filled. This is a financial burden for us because we buy for clients, and when an embargo occurs most of our customers can not keep their commitments. When the goods are released the season may be too far advanced for the goods to be salable."

Du Baolai, third secretary at the Embassy of the People's Republic of China, thinks the situation is improving. "So far this year only two categories have been embargoed: skirts and luggage. The problem stems from confusion in the first case over definitions and in the second over swing requested last year and our request now to swing back. In addition, the date of our export licenses is not the same as the actual export date, although MOFERT encourages the foreign trade corporations to apply for licenses as close to the shipment date as possible. The US tracks shipments by the export date while we track them by the date the license is issued. This too can result in confusion."

While only two categories have been embargoed, a number of categories are what Du calls "sensitive." In particular, China has almost filled the quota for women's synthetic blouses. It has applied for swing in this and eight other categories including cotton or chief-value cotton men's shirts, ladies blouses, dresses,

sweaters, and skirts as well as jeans and synthetic dresses.

Han Feng-Ming says that overshipment often results from a business gamble that the Chinese must take. If quota were allocated to factories by the branches of garment-exporting corporations in amounts totaling exactly 100 percent of the quota available, the branch would not use its total share. Material and electricity shortages are chronic and may prevent factories from fulfilling contracts. In addition, some contracts are canceled. Thus a branch may sell 120 percent of its available quota because it anticipates being able to fulfill only 90 percent. Should everything proceed smoothly, production may exceed the quota available.

Another factor complicating the task of tracking quota is manual record-keeping. Only the Shanghai branch of CHINATEX is computerized, although the CHINATEX head office in Beijing has leased a com-

puter from MOFERT. Data compiled by hand in the branches is submitted to the head office monthly. "Our goal is to computerize all of the CHINATEX branches and send disks from the branches to the head office and track quota in this manner," notes Du Baolai.

Despite China's strenuous objections to quota because of the limits it places on their exports, quota does have certain advantages for China. The imposition of quota on previously uncontrolled items drives prices up. For example, sports caps have only recently become quota items, and Zheng Naizhen, spokesman for the Guangdong branch of the China National Light Industrial Products Import-Export Corporation (which produces caps), noted in a Chinese publication that "Under this system . . . we can control the price," adding that processing fees will rise 20 to 25 percent this year. Finally, because quota inhibits earnings based on the quantity of sales,

the per-piece profit becomes far more important. Thus, quota encourages the Chinese to upgrade their textile industry and produce a higher quality, higher value product.

China's difficult bid to move upmarket

The buyers' desire to maintain quota share and China's desire to manufacture a higher value product can mesh nicely. The Arrow Company buys over 450,000 dozen shirts from China every year with a sales value of \$20 million. This May, Arrow supplied a factory in Shanghai with equipment, training, and technical assistance. In return, CHINATEX provided the site, factory building, workers, electricity and, most important, quota. The factory will repay Arrow by deducting the cost of the machinery from processing costs over a three-year period. Of course, this kind of deal is easiest to arrange when a company places large orders on its own rather than

COUNTERTRADE

In the last year countertrade, and specifically counterpurchase, has emerged as a tantalizing solution to China's foreign exchange crunch. Once discouraged by the Chinese government, this form of trade is now being officially encouraged and in 1985 the Ministry of Foreign Economic Relations and Trade established its own Countertrade Division. But considerable confusion remains as to whether countertrade is realistic and desirable for American firms in China.

National Council consultant Bill Evonsky, former manager of countertrade at General Electric, has spent the past four months meeting with government and business executives in the US, Japan, Australia, and China identifying China's counterpurchase needs, motives, and goals; determining if and how successful deals have been completed; and investigating the ways in which countertrade will affect the overall business climate. The findings of this study will be published in a special report for sponsoring member companies of the National Council for US-China Trade. Sponsors will be briefed on the report and discuss possible follow-up action on October 9 in Washington, DC.

National Council members may participate in this program at a cost of \$3,000. To attend the October 9 briefing, a partial payment of \$1,000 is required by September 30.

Senior Chinese government officials have encouraged this National Council initiative from the outset, and the Council report will form the basis for recommendations to the Chinese government on countertrade.

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Contact the Business Advisory Services Department of The National Council for US-China Trade for further information. 202-429-0340.



The National Council for United States-China Trade

through an agent.

There is significant incentive for China to produce more quality clothes. Last year the average price of China's clothes exports to the US was \$35 per dozen units, compared to \$62 from Hong Kong and \$57 from South Korea.

The Shanghai branch of CHINASILK advertises "Pierre Cardin, Oleg Cassini, Liz Claiborne, Hanae Mori, Albert Nipon, Lloyd Williams, Valentino . . . and others. Many of the World's Most Famous Names in Fashion Come to Us. Why not join them?" CHINASILK's own Han Feng-Ming provides part of the answer. "I don't think China is ready to do high fashion, although we can do basic or traditional. Turnaround is our biggest problem. We just can't meet US requirements." Indeed, buyers report orders taking from four to six months to fill. In the US high-fashion market, which has six 'seasons' (spring, summer, fall 1, fall 2, holiday, and cruise), China's response time is simply not fast enough.

But time is not the only drawback to sourcing supplies within China. Other complaints from US customers range from lack of yarn consistency to inconsistent color shading and poor availability of accessories. China is aware of these problems and is trying to combat them. For example, of the \$3 billion worth of textile machinery China has purchased since the 1960s, approximately one-third has been bought in the last three years. China has also established a number of corporations to upgrade the textile and apparel industry. One of these, the China National Garment Accessory Import and Export Corporation, was established to purchase accessories and the technology to produce them.

Despite these substantial improvements, the industry still has a long way to go. In the meantime, when Han Feng-Ming buys garments from China for CHINASILK to sell directly on the US market, accessories come from Hong Kong. "Ours cannot meet the demands of the overseas market," he says.

Developing fashion consciousness is another problem in a nation that has only recently moved beyond the Mao suit. Shen Pei-Xin explains that one of the functions of CHINATEX's New York office is to give the Chinese an idea of the US market. Shen

and his staff collect patterns and styles to send back to China. More recently, China has formed its own modeling troupes and Pierre Cardin showed his collection to a packed stadium in Beijing last spring. And an exchange program of faculty and students began last June between CHINATEX and the Los Angeles Fashion Institute of Design and Merchandising.

Although manufacturing CMT eliminates many problems, extensive quality control is still essential to assure acceptable high-fashion garments. Kantor of Rafique claims, "They do make a good quality product. But to get it right you have to hold their hands and develop the product with them until they grasp the concept of what you want." Liz Claiborne's and Lloyd Williams' increasing imports from China prompted both to open Shanghai offices. "Our office opened last November and we have more than 20 people there, all local and Hong Kong Chinese with the exception of the office manager, who is German. Approximately one-third of the staff is involved in quality control," explains Claiborne's Consolini.

Putting the customer first

Despite problems, most garment importers agree that China is a relatively inexpensive source of apparel and that workmanship is quite good overall. The biggest future problem may be a more insidious one: complacency. For the moment, Chinese goods are popular and customers are plentiful. China's suppliers do not attach sufficient importance to resolving complaints, nor do they feel the need for marketing. Says Han Feng-Ming, "A US buyer may send an urgent telex and not get a response for a week or, worse yet, get no answer. Some of the newly established branches in China do not realize the importance they must attach to communications." This is a far cry from the way business is handled in the US, Han observes. "In the US, manufacturers are out selling to the stores. In China you have to seek out the manufacturers."

Delays and quality problems can make an order unsalable, as the season for which the apparel was ordered comes and then goes. Unfortunately, the US buyer is usually unable to obtain a refund. "The Chinese suppliers still hope the order will be

accepted," notes Han. According to Han, many Chinese do not recognize that excessive delays and quality problems can be tantamount to abrogating a contract.

When the Chinese suppliers do recognize the validity of a claim, their preferred method of compensation, according to buyers, is discounts on future orders. Rebates of 5 percent may be spread over the subsequent several lots ordered. One agent complained that he has had between \$500,000 and \$1 million tied up in this way after the Chinese overshipped in categories he had ordered two years running, resulting in embargoes. Meanwhile, he was obliged to reimburse his own customers in cash.

Chinese reluctance to give cash refunds is more than just a cultural predisposition, however. Branches cannot authorize refunds themselves and must take cases to the provincial foreign trade commission. According to Shen, "The commission will study what went wrong and assign responsibility." This process is time-consuming and may well have career-damaging repercussions for the one found responsible.

Shen does not favor rebates on future orders either. "Discounts mean that the goods are sold at a lower price and that means lower duties at US customs. This is not good for the US and can also result in dumping charges against us." Shen suggests that if the claim is small, the CHINATEX branch can forego its commission on the deal or set aside additional quota on a popular item for the customer the next year. The latter will not recompense the customer, but help ensure future profits to make up for the previous loss.

China has come into its own as a leading supplier in the US textile market. And lately large US clothing manufacturers have begun to consider the PRC for offshore operations. But meanwhile, agents that have been buying in the PRC for years resent being pushed aside by larger corporate buyers and complain of increasingly poor service. These old friends are beginning to turn to the new generation of apparel-exporting nations. If China wants to retain its favored position in the US market, it will have to improve availability of inputs, quality control, quota tracking and, most important, service. 完

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Taxing US Offices in China

Contentious issues for representative offices

Andrew Ness and Stephanie J. Mitchell

Tax issues are rapidly becoming a major headache for US firms that have or are planning to open an office in China. In fact, many business representatives in Beijing might argue that tax has become second only to spiraling total expenses on their list of business grievances.

Foreign representative offices in China were generally not subjected to taxes until May 1985, when the Ministry of Finance promulgated the Interim Regulations for the Collection of Industrial and Commercial Consolidated Tax and Enterprise Income Tax from Permanent Representative Offices of Foreign Enterprises.

In the past the Industrial and Commercial Consolidated Tax (ICCT) and Foreign Enterprise Income Tax (FEIT) were on the books, but had not been applied to resident representative offices. The ICCT had been applied to Chinese enterprises since the late 1950s and to foreign ventures in China—excluding resident offices. The FEIT, passed in 1982, had previously been applied to contractual Sino-foreign joint ventures and technology transfer agreements, but not to equity joint ventures, resident representative offices, or offshore oil operations.

The May 1985 Regulations specifically extended these two taxes to foreign representative offices that receive direct proceeds for their activities in China (such as consulting fees or trading company commissions), or that represent third parties in addition to their home offices, whether or not any proceeds are actually received for such representation. The FEIT tax on rep offices was made retroactive to January 1, 1985, while the ICCT was assessed on resident representative offices beginning

June 1, 1985.

Given the already high cost of doing business in China, a number of US firms say they will reevaluate their China operations in light of the new tax burden. Two of the firms interviewed for this article indicated that, if their exemptions from these taxes are revoked, they may be forced to close their Beijing offices.

FEIT and ICCT: Who pays what?

The FEIT divides foreign firms into two categories: those with “establishments” in China and those without. Firms with an establishment in China are taxed on net income at progressive rates ranging from 20 to 40 percent, plus a 10 percent local surtax, yielding actual tax rates of 30 to 50 percent. Firms without establishments are taxed at a flat 20 percent rate on certain kinds of income earned in China such as royalties, interest, and dividends.

The ICCT is a turnover tax, assessed on a wide variety of products and services at various stages in the manufacturing, distribution, and marketing process. Rates range from 1.5 percent to 69 percent for Chinese firms. In the case of foreign rep-

Andrew Ness is deputy representative of the National Council's Beijing Office. Stephanie J. Mitchell, an attorney specializing in investment in China, has just returned from nearly two years' residence in Beijing. The authors surveyed Beijing representatives from a sample of 19 US firms, including trading companies, service companies, and manufacturing and industrial firms, and spoke informally with a number of other firms in researching this article. The authors would like to thank Paul Theil, first secretary in the commercial section of the US Embassy in Beijing, for his assistance in the preparation of this article.

resentative offices, the ICCT is set at 5 percent of gross revenues plus a local surtax of 1 percent of the original tax, yielding an actual rate of 5.05 percent. As a turnover tax, rather than an income tax, the ICCT is not creditable against US taxes, putting US firms at a disadvantage compared to firms from countries with differing tax laws.

The ICCT also operates as a disincentive for smaller or marginally profitable operations, since it is payable on any revenue received, regardless of profitability. A firm earning a net profit of 10 percent after expenses finds that the ICCT amounts to an effective income tax of more than 50 percent, even before payment of the FEIT—an additional 30 to 50 percent of net income. The result can wipe out profits entirely.

Methods of calculating tax liability

Chinese tax authorities use one of three calculation methods in levying the FEIT and the ICCT: the actual revenue and expense method, the deemed profits method, or the cost-plus method. Each method can result in tax liability for a firm which, on a cash basis, has actually lost money; and under the cost-plus method a firm with no revenues at all may have to pay tax.

The **actual revenue and expense method** requires the representative office to document its reported revenues and expenses with contracts, vouchers, and receipts. Business travel, office supplies, staff salaries, office rental, and ICCT payments are deductible business expenses. Deductions are limited, however. Entertainment expenses, for example, are limited to three one-thousandths of 1 percent of sales for firms with yearly sales under \$5 million. This means

that a firm with \$1 million in annual sales in China can deduct only about \$250 per month for entertainment expenses—a small sum when luncheon banquets start at about \$20 per person. Fees paid to foreign accounting and law firms are not deductible and interest payments on loans may only be deducted if the loans are determined by the local tax authorities to be on “normal terms.”

The primary advantage of the actual revenue and expense method is that it may be possible to demonstrate losses, which will reduce taxable income for up to five years under the FEIT's loss carry-forward provisions. The main disadvantage of this method is the amount of record-keeping it requires and the time spent preparing paperwork for the tax authorities, which can offset the money saved. Some firms are also concerned about the need to provide confidential business information as evidence of the office's income. To quote one Beijing-based representative, “There's no way I'm going to let the Chinese look at my profit margins.”

The **deemed profits method** of calculation is used in cases where the representative office can provide the Chinese tax authorities with information on revenues, but not on expenses, or where the Chinese tax authorities for one reason or another find expense information incomplete or unacceptable. Under the deemed profits method, profits are calculated as 15 percent of gross revenues, and the FEIT is based on that amount. Since very few businesses actually earn 15 percent on sales in China, this method frequently overstates profits to an extent apparently not fully appreciated by Chinese authorities. Moreover, this method has been applied to firms that actually recorded losses, if the firms could not provide the additional information that would have enabled them to use the actual revenue and expense method of calculation.

The **cost-plus method** is applied in cases where the representative office cannot provide, or the Chinese authorities will not accept, information about the office's revenues. Beijing tax authorities often appear to favor the cost-plus method over other tax calculation methods in practice.

Under the cost-plus method, revenues are considered to be 125 percent of operating expenses. The 5.05

percent ICCT is assessed on the resulting “revenue” figure. For FEIT purposes, profits are deemed to be 15 percent of the “revenue” figure and the usual FEIT rates are then applied. Under this method, a firm's total ICCT and FEIT burden may range from nearly 12 percent of expenses to more than 15.5 percent. The cost-plus procedure may tax firms with no revenues whatsoever, since it is based solely on expense data.

The advantage of both the deemed profit and the cost-plus approaches is that they require less documentation, and divulge less confidential business information to China's tax authorities. However, even these methods still require the foreign representative office to comply with the FEIT requirement of an audit by, or verification by, Chinese accountants.

Nearly half of the 19 companies in Beijing surveyed for this article were still exempt from taxation this year. Of the remainder, only two used the actual revenue and expense method, with six using the cost-plus method and one company using the deemed profits method. Several tax-paying companies felt that the documentation requirements of the actual revenue and expense method effectively forced their choice of

the cost-plus method.

Concerns for rep offices

• **Determining income:** Most firms subject to Chinese taxes are unsure of how the Chinese tax authorities decide whether an office actually earns taxable income.

Under the 1985 Regulations, representative offices are exempt from taxes only if they receive no commissions, fees, or other proceeds for their activities in China and if they act exclusively on behalf of their head offices. Thus, this provision generally taxes trading companies and consultants—who receive commissions and act on behalf of parties other than their own head offices—and exempts representative offices of manufacturing and industrial firms.

In November 1985, however, the Ministry of Finance narrowed the definition of a “head office” to include only the immediate legal parent of the representative office in China. This interpretation complicates matters for representative offices owned by multinational companies with numerous affiliate and subsidiary corporations. When originally setting up a China office, many firms established a separate subsidiary to oversee the representative of-

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fice, in part to insulate other corporate entities from any legal liability that might arise from problems with products or work in China. This policy, a common conservative approach to beginning operations in a new market, has now conversely left many firms too estranged from their "head offices" to qualify for tax exemption in China. In other cases, the decentralized management of a multinational may make it hard to determine which, if any, corporate entity is the "head office."

In cases where there are no contracts between the representative office and corporate affiliates or subsidiaries, the Chinese authorities will impute income to the representative

office at what they perceive to be "the usual rate of commissions." To persuade the Chinese authorities that there is a discrepancy between "the usual rate" and actual rates, firms must provide extensive and often confidential documentation. The tax authorities asked at least one firm to provide the entire year's telex traffic as supporting evidence, or else accept the use of the cost-plus method for tax calculation. A more fortunate firm was given permission to use the deemed profits approach after they presented "representative samples" of contracts. The firm estimates that they would have needed another full-time staff member to do paperwork had they used the actual income and

expense method.

At least one of the firms surveyed acts as liaison for several corporate "head offices," under an arrangement whereby each division pays a fixed annual fee for the use of the Beijing office's services. Others use a service agreement between corporate headquarters and cost center liaison offices that allocates expense plus a specified percentage (often 5 percent) to the representative office. These contracts clearly express the amount of "commission" for representative office services, rather than leaving it to the Chinese authorities to impute what is often a much higher rate.

• **Date income received:** Lately the

BENEFITS OF THE BILATERAL TAX TREATY

Beginning January 1, 1987, the tax liabilities of many US firms conducting business in China will be lower as the terms of the US-China bilateral income tax treaty take effect. The treaty governs income tax on business activities, withholding tax on interest and royalties, and individual income tax, and applies to US residents and firms conducting business in China as well as Chinese residents doing business in the United States. The treaty may save US firms millions of dollars during its first effective year alone.

The treaty, based on the OECD model tax treaty of 1977, is similar to treaties in force between China and many of its Western trading partners, including Japan, West Germany, Great Britain, and France. No longer will many US firms find their competitive position in China hampered by higher withholding tax rates on interest and royalties and shorter time frames for individual income tax exemptions.

US companies without fixed places of business in China that earn interest and royalties through technology transfer and other contracts will see the most benefits. These firms do not pay income tax in China, but instead pay withholding tax on interest and royalty earnings. They will now be subject to a maximum withholding tax of 10 percent, down from the current 20 percent.

Companies with representative offices that are considered "permanent establishments" under the terms of the treaty will continue to pay taxes based on the net income attributable

to those offices. Even firms without representative offices may be considered to have permanent establishments in China, since the treaty defines fixed places of business to include factories, workshops, mines, wells, and quarries. Medium-term projects, previously a hazy area, will be now considered permanent if construction sites or associated supervisory activities exist for longer than six months. And installations or drilling rigs used in exploiting natural resources need only be present for three months to be included in this definition. However, business sites established solely for purchasing merchandise from China or storing or displaying such goods remain outside the "permanent" category. Companies that use one or more agents are also not regarded as having a permanent establishment unless the agent works primarily for that company.

Employees of US firms without permanent establishments and individuals performing independent professional services, such as consultants, may also benefit from the treaty's provisions. Under current law, such persons must pay Chinese individual income tax after residing in China for 90 consecutive days. The treaty extends this residence period—levying taxes if the individual spends 183 or more days in China during any calendar year. This will allow companies greater flexibility in rotating workers in and out of China.

The treaty also provides that US firms and individuals may credit taxes paid to China against their US income taxes, although the US Treasury Department has allowed such deductions

since 1983 even without a treaty. The US rejected a tax sparing provision during negotiations, but agreed that tax sparing credits would be incorporated into the treaty at a later date if the US subsequently agreed to such a provision in a treaty with another country.

Any tax benefits US companies will derive are long overdue. The treaty, known officially as the "Agreement Between the Government of the United States of America and the Government of the People's Republic of China for the Avoidance of Double Taxation with Respect to Taxes on Income," was signed in Beijing on April 30, 1984, by President Reagan and Premier Zhao Ziyang. However, the treaty was withheld from full Senate review until this year because several senators were concerned that the treaty would not effectively prevent "treaty shopping." (Treaty shopping is a process whereby an investor from a third-country establishes operations in one of the signatory states to obtain tax benefits intended solely for the signatories themselves.) A protocol eliminating this possibility—by restricting tax benefits to those companies whose directors are US citizens or residents—was added to the treaty in May 1986, paving the way for the treaty's approval by the US Senate on July 24, 1986.

For a detailed discussion of the treaty's implications, see *The CBR*, Sept-Oct 1984, p. 52. National Council member companies seeking more information may contact John Callebaut, director of Development and Government Relations at the National Council, 202-429-0340.

Chinese authorities often calculate taxable income from the date of contract signing, based on commissions or sales prices specified in contracts. But Chinese payments on contracts in the last year have commonly been delayed several months. Thus the representative office is often being taxed on funds that have not yet been received—and on which it has lost the opportunity to receive interest, a further penalty.

Chinese authorities have used the amounts of commissions or sales prices specified in contracts as the basis for tax assessments, calculating taxable income starting from the date of the contract signing. But in the last year, Chinese payment on even simple trading contracts has commonly been delayed for three or four months, with delays of up to a year occurring on complex contracts. Thus the representative office is often being taxed on funds that have not yet been received—and on which it has lost the opportunity to receive interest, a further penalty. Contractual amounts should instead be construed as income only upon receipt of funds.

• **Audits:** Audits by Chinese certified public accountants are required for all foreign representative offices and—at least this year—all rep offices in Beijing are also being audited by the Beijing Tax Bureau after the CPA audit. There is no “de minimis” rule in China under which a receipt is not required for expenditures below a certain amount. Thus, tax officials and Chinese accountants have insisted on seeing a receipt for every taxi ride and every drink consumed.

• **Inconsistency:** Another source of frustration for several firms was the degree of discretion possessed by individual tax officials in a system that does not yet issue advance rulings on the tax effect of a particular transaction, and offers little practical hope of appealing adverse decisions. A personal relationship with a tax official may count for more than the letter of the law or regulations in some cases, as in the case of the US firm that found a hefty tax penalty reduced after cultivating relations with tax bureau officials. As one US businessman said, “What kind of an environment is it when the tax official’s attitude toward me personally determines my tax liability?”

Officials in different cities may also tax the same item differently, with local practice apparently taking precedence over any national standard.

The tax laws provide for appeals to

the Ministry of Finance and the People’s Courts, but most firms feel that such formal approaches are not likely to be successful. To date, no US company has brought a tax matter to Chinese courts. The standard penalty of .5 percent per day on unpaid taxes is a strong incentive for prompt payment—even of disputed amounts.

Contractors’ concerns

Representatives of engineering and other contracting firms operating in China have their own set of concerns. The 20 percent FEIT withholding tax applied to firms without establishments in China has so far not been consistently applied to contractors. The withholding tax applies to fees for the use of proprietary rights, including patented or other proprietary technology, and also to fees for technical training, services, or documentation. Engineering firms doing business in China commonly provide all or most of these items, as well as selling the Chinese the necessary equipment for a given project. Such sales of equipment by a foreign company without an establishment in China are normally exempt from taxation.

Lately, however, there have been cases in which local tax authorities have defined more of the contract amount as taxable technology transfer than seems fully justified. In some cases, the entire amount of the contract has been considered taxable.

The indeterminate status of contracting firms—which, by the nature of their work, may stay in China for only several months at a time—presents another problem. Under the FEIT, such firms are considered to have a “worksite” (*changsuo*) in China and pay tax at the regular rates. Recently at least one local tax office has stated that such firms will be taxed on both the establishment basis (paying FEIT and ICCT as described above) and the nonestablishment basis (20 percent withholding on technology transfer agreements). In other cases, design or planning work done en-

tirely outside China has been subject to taxation at establishment rates if included in the same contract with work to be done in China. Discrepancies like these sometimes remove any possibility of making a profit on an already negotiated contract.

Working toward a compromise?

The lack of prior tax information has left firms without the ability to do tax planning, and some degree of flexibility would improve the business climate considerably. At the very least, a number of ambiguous issues must be cleared up, such as the extent to which firms may respond to Chinese tax developments by changing from one method of calculating tax to another. For instance, a firm might want to rearrange their affiliation with their head office overseas to lower their tax burden. But there are indications that the Chinese tax authorities may consider such moves a form of tax evasion rather than tax planning.

The Chinese authorities may eventually revise tax practice and policy in response to the flood of concerns that surfaced during this first year of foreign office taxation. The Chinese tax authorities have recently shown their willingness to entertain comments on tax issues. When US Treasury Secretary James Baker visited Beijing in May, he proposed to Chinese Finance Minister Wang Bingqian that some channel be established within the Ministry of Finance to receive comments from foreign businesspeople and governments on Chinese tax matters. Since then, US Embassy officials have met informally on several occasions with Chinese Tax Bureau representatives to discuss tax issues affecting foreign businesses in China, and expect to continue such meetings on a regular basis. These developments, together with generally positive and helpful attitudes at senior levels of the Ministry of Finance, introduce a hopeful note in an otherwise bleak year for China’s foreign enterprise tax policy and practice. 完

The July 1986 decision in favor of China, made by the US Court of Appeals on the Hukuang (Huguang) railways bonds case—*Jackson v. the PRC*—removes legal and diplomatic irritants from US-China relations. It also sets the stage for a chain of events that may eventually allow China to issue bonds on the prestigious New York market.

The Hukuang bonds, issued in 1911 by the Chinese imperial government to raise funds to build the Beijing-Guangzhou railway, have been in default since the mid-1930s. In 1979 a group of American bondholders filed suit in the US district court in Alabama and obtained a default judgment for \$41 million in 1981. After China subsequently appeared in court to present its case, the Alabama court lifted the default and dismissed the case in China's favor in 1984. The plaintiffs appealed, but on July 25 the US Court of Appeals for the 11th Circuit upheld the Alabama court's decision, agreeing that US courts have no subject matter jurisdiction in this case, because restrictions limiting sovereign immunity when a foreign State is involved in commercial activities cannot be applied retroactively. (These restrictions were first applied by the US in 1952 and were later codified in the Foreign Sovereign Immunities Act of 1976.)

This ruling was important, since China viewed the Jackson suit not only as an impediment to bond issues but also as an affront to its sovereignty. The Chinese press, in articles on the Jackson decision, has emphasized China's absolute immunity from suits in foreign courts and reiterated China's nonrecognition of debts incurred by "past reactionary regimes." China first sought to express this position through the Department of State, which countered that the proper forum, because of the separation of powers in the US, was the court system.

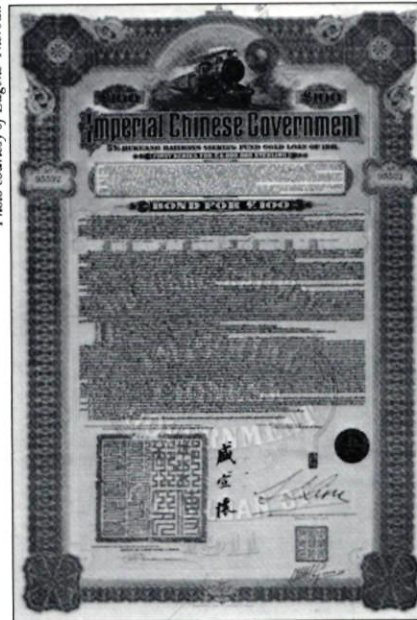
In mid-August, the plaintiffs requested a rehearing by the court of appeals, although it is unlikely the appellate decision, which was unanimous, will be overturned. If the current decision remains in effect, the plaintiffs have the option of seeking a writ of certiorari from the Supreme Court. But since there is no dispute among the lower courts on the legal issues, the Supreme Court is unlikely to hear the case, and thus it may be that China has won—the Jackson case at least.

But the Hukuang bonds involved in this case are only some of the pre-1949 Chinese bonds in default, and other cases are pending. In the US district court in New York, for instance, an entry of default has been made against China in *Carl Marks & Co. v. PRC*, but no default judgment has yet been entered, perhaps because the New York court was awaiting the out-

Speculations on a Bond Issue

Elizabeth Morrison

Photo courtesy of Eugene Theroux



come of the Jackson case. Edward M. Sills, counsel for the bondholders in the Marks case, said that a decision on further action would be made later, presumably after the Jackson case is finally resolved, but he did not speculate on what that action would be. Although the Jackson decision is not binding on the New York court and the cases are somewhat different, the final decision on Jackson is likely to influence the New York court, notes Eugene Theroux of the firm Baker & McKenzie, counsel for China in the Jackson case. In short, the Jackson case, as the only bond case China has actively participated in, is the bellwether case. The court's decision on Jackson thus does not end China's bond headaches, but it could be a sign that relief is on the way.

Elizabeth Morrison, a graduate of the Johns Hopkins University School of Advanced International Studies, is doing postgraduate work at the Johns Hopkins-Nanjing Center in Nanjing.

China is unlikely to make a move to enter the US bond market until the legal situation is fully clarified and the Jackson case is resolved favorably and finally, according to both legal and financial experts who deal with China. Even before the Alabama court decision, however, there was no actual prohibition against China raising capital in the US. The reasons for China's reticence are perhaps more commercial than political at this point. As one US investment banker noted, the two real considerations are China's willingness to enter the US bond market and the market's receptivity.

The latter does not appear to be a problem. Bankers agree that the US market will welcome China's entry into US financial markets. A low level of debt and relatively low debt-service ratio make China's credit good. In fact, major investment houses worldwide, including US firms, have courted Chinese bond placements in Japan, Frankfurt, and Hong Kong. (For more information on China's bond issues, see *The CBR*, Jan-Feb 1986, p. 18.)

According to figures released by the Organization for Economic Cooperation and Development, China borrowed over \$3 billion on international markets in 1985, with just under \$1 billion in foreign and international bonds. Activity in 1986 shows no signs of a slowdown—China issued an estimated \$1 billion in foreign and international bonds by July. With continued borrowing of this magnitude, China will eventually want to cast its net wider and issue in the premier markets of New York and London.

The final sticking point for US bond issues is China's tenacity in finding the best deal. According to Dou Jianzhong of CITIC's banking department, "in the past, the two obstacles to CITIC issuing bonds in the US were the unresolved Hukuang bond issue and the prohibitive banking fees and interest rates; only the latter obstacle remains."

Dou acknowledged the need for US dollars but contends they can be raised less expensively elsewhere. He pointed to Hong Kong where CITIC can pay low commissions and swap for US dollars at rates below LIBOR (London Inter-Bank Offered Rate).

But Hong Kong can be only a short-term solution—its market is shallow and narrow compared to the US. In the US, China could borrow hundreds of millions of dollars at a time for up to 30 years. Given China's development plans, stretching debt out in this way and having more flexibility might be worth the higher commissions. Indeed, it will probably not be long until the Hukuang issue is resolved once and for all, at which time China may look seriously at the advantages of issuing in US bond markets. 完

The United Kingdom has one. West Germany has one. In fact, many of America's friends (and competitors) have one. But the United States still hasn't signed a Bilateral Investment Treaty with China.

Simply put, a Bilateral Investment Treaty (BIT) is a reciprocal agreement providing basic guarantees and protection for the business activities of investors in a foreign country. The US government began to negotiate BITs with foreign governments in 1981, and has signed approximately 10 treaties with countries such as Egypt, Panama, and Cameroon that are now awaiting expected Senate approval.

US BIT negotiations with China began in 1982, but after six sessions of talks in the last four years the two countries are still far apart. Although eight European governments have concluded treaties with China that apparently meet their needs, the office of the US Trade Representative (USTR), which negotiates BITs on behalf of the US government, "does not consider that the treaties negotiated between China and third countries provide a sufficient range of protection to investors."

Another reason a treaty with China has not been reached is the problem of precedent. The US has developed a prototype treaty and stuck to its terms in negotiating BITs. If a watered-down version is concluded with China, past and future treaty counterparts may demand similar terms.

The US and China differ on each of the four main issues that constitute a BIT, although differences in some areas are greater than in others.

Expropriation The USTR has identified compensation for expropriation as a difficult issue in the negotiations. The US seeks compensation at "full (i.e., fair market) value without delay in cases of expropriation." The Chinese balk at this term and prefer the more ambiguous term "real" value. Behind this difference lies a Chinese rejection of the concept of the full discounted value of an investment. The Chinese side also proposes compensation paid "without undue delay," sidestepping the US push for prompt settlement. All the European BITs with China are worded to provide compensation at "real value (or merely 'value') without undue (or 'unreasonable' or 'unjustified') delay."

In order to create an additional disincentive for prolonging the settlement process, US negotiators seek a provision for compensation to include interest payments at commercial rates. The PRC agrees only that the amount finally paid should take into account any delay. Among other BITs, only the UK's treaty has a compensation clause that includes interest at unspecified "normal" rates.

The Investment Treaty Impasse

John Frisbie

Dispute Settlement Arbitration is another difficult issue. Other BITs concluded with China to date have provided for international arbitration in cases involving disputes between governments, or in disputes between an investor and the government over the amount of compensation in cases of expropriation. The Chinese insist that all other types of investor disputes should be settled according to Chinese law, rather than international arbitration. The US feels this would leave the investor with little recourse and is pushing for the option to go to arbitration in a broader set of circumstances. For instance, the US seeks a provision that would permit third-country arbitration over the larger question of whether an expropriation has, in fact, occurred. US negotiators argue that only in this way will an investor be protected against "creeping expropriation"—i.e., the passage of laws or regulations that ultimately drive the investor out of business. China says such a provision would be a violation of its sovereignty, and maintains that this should be a matter of diplomatic negotiation.

Transfers The ability to transfer capital and funds from one country to another is a minor issue in the negotiations, despite China's foreign exchange convertibility problem. There is no disagreement between the two sides on the text covering this issue, which calls for transfers to be made freely subject to domestic foreign exchange laws. But China's ambiguous foreign exchange regulations leave in doubt the level of protection that this clause actually provides. In light of China's present restricted foreign exchange situation, further concessions on this issue are unlikely.

Treatment This refers to the manner in

John Frisbie completed an MBA at the University of Texas at Austin in 1984 and spent a year in Beijing pursuing postgraduate studies and working for a US company before joining the National Council's Investment Advisory Program in June.

which foreign investment is treated by the host government, compared to investment from other countries and to domestic investment. As in all other BITs with China, the US-PRC draft treaty grants Most Favored Nation (MFN) treatment to US investors—treatment no less favorable than that granted to any third-country investor.

The US is also pushing for "national treatment"—treatment no less favorable than that accorded Chinese enterprises—in such areas as access to and costs of materials, transportation, services, and utilities. The US would like to include labor under national treatment, and fix wages at no higher than 150 percent of the rate paid by Chinese enterprises for similar jobs. The Chinese oppose the inclusion of labor in the scope of national treatment.

Should the US and China be unable to conclude a treaty that satisfies both sides, the US has several options. The first is simply to abandon the attempt to negotiate a BIT altogether. Some observers question whether negotiations should be prolonged if no progress is made at the next "informal session to exchange views," to take place in November 1986. US businesses have been investing in China without a BIT since 1979, and many of the issues in the BIT have been successfully accounted for in contracts signed between Chinese and foreign partners, or through protection from the Overseas Private Investment Corporation (OPIC), which provides political risk insurance to US investors overseas.

A second option is to abandon the attempt to negotiate a comprehensive investment treaty and instead concentrate on separate agreements covering key issues. Progress could thus be made in areas where differences are minor, leaving problem areas to be resolved later.

A third option is to suspend negotiations for the time being, since some points of disagreement between the US and China may recede as China becomes further integrated into the world economy. The USTR is thus prepared to "walk away and come back in three, four, or 10 years," when China might be more willing, or able, to meet US BIT requirements.

For the moment, the lack of a BIT is not putting US investors in China at a competitive disadvantage. Japan has not signed a BIT with China either, and is bogged down on problems similar to the US, while the European treaties offer little legal protection beyond that a US investor can already obtain in a contract. But a BIT providing long-term legal protection for US investors in China would improve the current uncertain investment climate and encourage greater US investment—a development that would serve both Chinese and American interests. 完

Update on Enterprise Reforms

Factory managers lead the way in implementing structural changes

William A. Fischer

The spread of enterprise reforms through the Chinese economy has not been consistent. Pockets of almost complete autonomy exist side-by-side with central planning. Sectoral differences are emerging as consumer goods and other noncritical industries are allowed to experiment more than industries deemed critical for political or economic reasons. And the quality of management varies considerably from one factory to the next.

A good manager can be a decisive factor in the extent to which reforms are instituted. Yet many managers still serve as conduits for information passed from the top of the economic hierarchy to the workers, rather than as decision makers or risk takers. Far more innovative is the new generation of more professional managers who recognize the opportunities being offered by reforms and are taking advantage of them. Responsible for overseeing more and more aspects of factory operations, these managers are actively applying the new range of tools at their discretion.

Power for innovative managers

Managers are already exercising significant autonomy in a number of areas as a result of national reforms being instituted from the top down.

• **Sources of funds.** Recent statistics on the sources of investment capital in China reveal extensive changes in enterprise financial relations with the State. In the past, the State allocated working capital and capital investment funds to the enterprise based on the State plan and production quotas. Enterprises had to turn over all their earnings to the State, so profitable enterprises were actually supporting the ones losing money.

Today, the enterprise is largely re-

sponsible for generating its own working capital and investment funds out of retained earnings. The State provided just 35.4 percent of all investment funds in 1983, down from 83.3 percent in 1979. Domestic bank loans, not a source of capital in 1979, accounted for 14.3 percent in 1983. Self-financing by the enterprise consequently rose from 16.7 percent to 43.4 percent over the same period. This trend is accelerating as State organizations become less involved in providing capital to enterprises, and managers must exercise more creativity to obtain their funds.

If significant capital, in addition to that provided by the State, is needed for an investment project, enterprises now have several alternatives. Loans from banks are becoming the primary means of obtaining funds. In the last year, banks began offering differential interest rates on loans to certain key industries that are secured by fixed assets—and these rates were cut drastically in July. Equity issues, while still uncommon, are also emerging as a viable alternative.

• **Use of funds.** Enterprises no longer remit profits to the State, paying instead a 55 percent national corporate tax and varying local taxes, which put the effective tax rate on enterprises at between 75 percent and 85 percent. Changes in the source of State revenues reflect this change—national revenue from enterprise income dropped from 51

William A. Fischer, professor in the School of Business Administration at the University of North Carolina, Chapel Hill, conducted extensive interviews with Chinese managers during the past seven years. He is currently studying how China utilizes foreign technology, and is working with several Sino-American joint ventures on operational issues.

percent of all revenues received in 1978 to 17.7 percent in 1984, while industrial and commercial taxes rose from 40.3 percent of national revenue in 1978 to 51.6 percent in 1983.

As a result of this change, enterprises can now make more money by raising their efficiency. Since factories keep the portion of the profits left after taxes, more income means more money for the factory. Profits have, therefore, become the single most important yardstick of enterprise performance, and managers who are now accountable for their economic performance place top priority on profitability.

Managers who increase profits can decide how to use their portion of the earnings—as long as they stay within State guidelines that limit their use to investment in capital equipment, worker welfare, and bonus payments. The manager also uses depreciation funds, calculated on a straight-line basis, as a primary source of working capital for the rejuvenation of fixed assets. Their use to finance capital construction or bonuses and welfare is prohibited.

• **Marketing.** In the past, State administrative agencies set production quotas for the factories and provided the supplies to meet the quota. The only direct contact between factories and their customers came during national order meetings where delivery schedules, style, and quality specifications were negotiated. Since customer orders were assigned by the State, and products were distributed by wholesaling agencies, managers did not need to master market research, advertising, or distribution skills.

Today, administrative agencies still set target output levels for each factory, but this quota tends to be quite loose. The State still provides some of

the supplies needed to meet quota production, but usually less than 100 percent. Aggressive factory managers are increasingly sourcing supplies independently to support above-quota production and to gain competitive advantages through the use of more reliable suppliers and innovative components.

Many enterprises still rely on government-coordinated order meetings to make a portion of their sales—but more aggressive enterprises are striving to capture a larger share of the national market. Producers that formerly served a single province or region find themselves competing with interlopers. Identifying markets, establishing brand reputations, encouraging potential customers to try the product, getting the product to market, and providing product support services, such as repair and service centers, are all becoming elements of the manager's job.

The scarcity of market information has not prevented managers from developing new means to promote their product. Large enterprises serving nationwide markets are opening representative offices in major cities and sending design engineers to speak directly with customers. Some factories are even renting stalls in free markets to provide information to potential customers and conduct consumer studies. Other large factories are collaborating with retail outlets to gain exposure for their products and to collect market information. Advertising campaigns are becoming a popular way to influence consumers, although many managers confess that they have little idea how effective the campaigns are.

Product design is also being improved. In the past, industrial ministries would initiate new product designs, working with representatives of the major factories that would produce the product. This approach led to a "unified design" for most products. Now trade secrets, which used to be shared freely in the spirit of "socialist brotherhood," are guarded fiercely for the competitive advantages they may provide.

Research institutes formerly supplied information and innovations at little or no cost to enterprises served by the same ministry. This has begun to change, and within a few years most research institutes will be expected to generate their revenues from contracts with factories.

Fighting for change in other areas

Despite the changes occurring in these areas, innovative managers have met considerable resistance as they try to institute reforms. Middle-level bureaucrats are reluctant to relinquish control to what they consider capricious market forces. Moreover, they fear for their jobs as market influences downplay planning and make politics superfluous. To retain or recapture their power, some bureaucrats have even launched investigations of managers to destroy the manager's credibility.

Economic reforms attempt to separate management and Party functions, but within the factory the relationship between the factory manager and Party secretary has yet to be clearly defined. This sometimes hampers the manager's ability to make and implement decisions, particularly on personnel matters, such as the appointment of department heads.

Inexperience poses another problem for managers. While the central government is encouraging managerial autonomy, many years of deferring to administrative control are hard to overcome. And even the most

innovative managers feel hampered by a lack of information on modern management techniques.

As a result, many areas of factory operations have been slower to change. One of these is inventory operations, which remains somewhat insulated from the larger structural reforms that are percolating down:

• **Inventory Control.** In the past, the typical Chinese enterprise amassed large inventory holdings since there were essentially no carrying costs associated with inventory. Today, such habits die hard. New bank loan rates for working capital, and awareness of the opportunity costs in holding excess inventory, have not been enough to change the system. The difficulty of getting inputs remains so great and the cost of carrying excess inventory so small in comparison that Chinese factory managers still have little incentive to carefully control inventory.

• **Shop-floor control.** Chinese factories rarely have efficient systems to keep managers apprised of the status of the work in progress. Simply obtaining better information systems is not enough to solve the problem, and Chinese managers have little experience with the types of operational analysis US industry takes for

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• **Quality control.** Reforms have had a mixed impact on the quality of goods produced. Some factories have raised quality to encourage exports or gain market share. But quality control is still not a major concern of factories that produce for a market plagued by shortages; Chinese consumers accept the inevitability of defects. Reports in the Heilongjiang press, for example, reveal that 52.6 percent of the household appliances produced in the province fail to pass quality inspections.

Another problem is the quality of inputs. Although industrial purchasers know that their incoming supplies should be checked for defects, they routinely forego sampling upon receipt of orders. It is safer to rework poor material on hand than to have no material at all.

Price, bonus, and labor reforms, while they have received wide publicity, are another area in which managers' powers are still severely restricted, and substantial reforms are slower in coming:

• **Prices.** Price "bands" now allow factory managers to set some prices within a 15–20 percent price spread. If demand exceeds supply, customers are often willing to pay more for higher quality. In general, however, the price situation remains a problem. Managers and government officials alike want to introduce rationality into the system, but don't know where to begin. The chance to set prices for new or improved products may allow the manager some price flexibility, but this is just a beginning.

• **Bonuses.** Previously the Chinese experimented with a variety of incentive schemes ranging from piece-rate programs to moral suasion. Today, performance incentive programs are the most popular, but bonus abuse and a workers' preference for relatively egalitarian wage distribution still limits their effectiveness.

Many managers used their increased autonomy to award lavish bonuses at the end of 1984, in an attempt to make up for years of no pay increases. The result was "bonus inflation," as bonuses skyrocketed without a corresponding increase in productivity. The government slapped bonus taxes on State-owned enterprises in early 1985 to slow this

inflationary trend. (When an enterprise's bonus bill exceeds the average wage bill for two-and-a-half months, a progressive tax ranging from 100 to 300 percent goes into effect.)

This steep bonus tax is a heavy burden for factory managers, who complain that it has cut into their ability to offer even reasonable productivity incentives. In fact, some managers have charged that the tax is partly responsible for declining production during the last year, because taxing bonuses is tantamount to taxing people's initiative and productivity.

Chinese managers must also learn to use bonuses effectively. Currently, they tend to overuse individual incentive schemes when group incentive would be more effective for a project requiring team effort, such as an assembly line.

• **Labor acquisition.** Factory workers have traditionally been assigned their jobs by local labor bureaus, and neither the enterprise nor the workers had much choice in the assignments. Today, labor bureaus still make most assignments. Enterprises with managerial autonomy can theoretically hire and fire workers, but most factories are unable to exercise such rights because no labor market exists and most of a worker's social support is provided by the enterprise. In exceptional cases workers have been fired, but this usually involves nonperformers who have been warned several times, or absentees who constantly skip work.

The ability to hire contract workers increases the factory manager's flexibility. Interviews reveal that contract labor has become the predominant means for China's enterprises to add new workers to their staff. But it is still too early to judge whether this practice will increase labor mobility in the long-term.

The management system in flux

Given the importance of the individual in enterprise reforms, changes in the system of professional job mobility and managerial appointments are crucial to the entire enterprise reform program. Significant changes are now being made.

In the past, factory managers were appointed by the technical or commercial bureaus above the factory or, in the case of key factories, by the industrial ministry itself. Appointments were based on both technical and ideological credentials, but Party

qualifications were the chief criterion used to determine professional positions.

Today, some managers continue to be appointed by higher-level administrative organs, but regulations passed by the State Council in late 1985 call for a system in which managers are to be elected to four-year terms and are limited to three terms. Managers are to be reappointed or reelected if the workers' council and the local administrative and Party officials agree.

The political reform proposals currently being discussed in the Chinese press stress that the functions of the Party and management within the factory should be separate. More managers are being appointed based on their technical credentials and relevant experience within the factory. Although Party membership remains important to professional advancement, one important change is that many of today's managers are being recruited by the Party specifically because of their technical skills and managerial qualifications.

The assignment of university-trained manpower to an enterprise is still controlled by local adminis-

trative bureaus and the Ministry of Education. College graduates can now, in some cases, express preferences for location and type of job, but the ultimate decision still lies with the school officials who assign the jobs. The individual usually must comply, although some flexibility is emerging as a few graduates seek out and interview for positions, then choose among their options.

The government wants to establish a professional job market and encourage job mobility. Although some vertical mobility exists within each ministry, the autonomy of each ministry inhibits cross-ministerial flexibility. Thus, once a ministry has acquired professional workers, it does not want to relinquish them. However, new regulations on labor mobility are aimed at paring bloated State enterprise rolls to distribute professional workers more equitably. While some units hesitate to accept transfers because they question worker loyalty, more aggressive enterprises actively recruit talented professionals.

Gap between rhetoric and reality

Perhaps the greatest problem fac-

ing today's managers in China is unpredictable government intervention. In the emerging pattern of enterprise reform, a supportive central government grants power, innovative managers seize the power and use it in unexpected ways, and then a central readjustment policy occurs to correct the excesses. This reactive behavior inhibits managers' initiatives and does not allow enough time for reforms to build a momentum of their own. But enterprise reforms are likely to continue to bump along in a stop-and-start cycle as market influences encourage managers to fully exploit the powers they are given.

The extent to which innovative managers can experiment with these new powers and make them stick remains to be seen. No matter what is proclaimed in Beijing, enterprise reforms that don't filter down to the factories cannot be considered effective. The success or failure of the urban reform program will ultimately be determined on the shop floor, where market forces must develop and new managerial autonomy be exercised if the reform movement is to transcend slogans and change the way the Chinese economy works. 完

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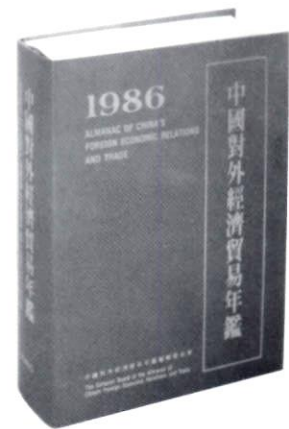
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Consulting in a Chinese Factory

Paul M. Engle

More and more foreign industrial "experts," from consultants to representatives of companies entering joint ventures, are working in China. These assignments can test the "expert's" skills as a manager, engineer, negotiator, inventor, and lecturer—as I found when serving as a consultant at an industrial equipment and room air conditioner factory in Guangzhou. Yet despite some frustrations, a consulting job in China provides a chance to play a satisfying role, however small, in China's rapid economic development.

The factory I worked at planned to quintuple air conditioner production in just a few years. With a growing market, and restrictions placed by the government on air conditioner imports, the factory was interested in engaging a foreign consultant to help improve factory operations, advise on product design, and provide practical advice on business negotiations with foreign companies.

This factory was a study in contrasts as modernization brought rapid advances to some aspects of production while leaving others far behind. The factory had imported top equipment to modernize the assembly and test area for air conditioners. But other areas of the factory, such as the machine and sheet metal fabrication shops, remained far below modern standards.

Creative problem solving

Given the short three-month stay I had at the factory, it was necessary to confront problems head on. Chinese workers sometimes either did not see problems, felt they could never be changed, or were reluctant to take responsibility for actions to resolve them.

Once a problem is recognized, the

consultant will need creativity to implement solutions. For example, a lukewarm response greeted my suggestion to reduce the number of operations required in fabricating sheet metal parts for each air conditioner. A modest improvement in tooling would reduce the number of press operations per unit. But labor is plentiful and cheap, and it was only after I pointed out that additional space and capital would be required to accommodate the four more long rows of punch presses as volume increased that management became interested in better tooling.

My attempts to eliminate a hazardous operation illustrate another route to getting ideas adopted. The factory flat punches blades and then handloads them one at a time into another die set to be curved for use in a blower wheel. I suggested combining the two steps, and met with a die designer to outline design drawing requirements.

At first the meeting was completely unproductive. No matter what I suggested, I was told that it wouldn't work properly, was too difficult or too expensive to build, or would result in a die too difficult to sharpen. Participants did not even respond to my requests for alternative suggestions. Finally, I mentioned that a custom die designer/builder from outside the factory could be hired for the job. The designer's attitude

Paul M. Engle, a consultant for Carrier Corp., recently returned from a three-month stay in Guangzhou where he served as a consultant to the Guangzhou Radio Special Purpose Equipment Factory. He was one of the first "volunteer executives" sent to China by the International Executive Service Corps, an organization sending volunteers to work in underdeveloped countries.

changed immediately. Faced with this threat to his turf, he quickly became involved and came up with good ideas.

There are some situations that may stymie even the most creative solutions. When part of a copper tubing shipment arrived corroded and unusable, I suggested that the factory file for a credit or get the bad tubing replaced. In a frustrating meeting to discuss the matter, the quality control supervisor went to great lengths to describe the problems, but showed little interest in corrective measures. After an hour, I concluded that he had already decided nothing could be done, since the tubing imports had been accepted by a central government inspection agency. Instead, his purpose at our long meeting was to enable him to report that even the "foreign expert" couldn't solve the problem. Fortunately, such an attitude was rare.

Knowing something about the constraints on Chinese managers may help to make their actions more understandable. Despite the desire to improve operations and increase the competitive position of the factory, some managers are still severely limited in their freedom to regulate personnel, sources of material, and factory policy. Although ongoing economic reforms give managers more responsibility, entrenched bureaucratic attitudes still constrain individual power. Most management decisions are still made by small groups or committees, and then apparently only after reaching a consensus. This may or may not lead to good decisions, but it definitely does not lead to rapid ones.

Some managers in China seem to believe that modernization means using the most up-to-date processes and methods—even if such high technical levels are unnecessary or

even incompatible with other aspects of the production process. For example, small air conditioner parts were originally placed in dies by hand and the press was tripped by a foot pedal. To enhance safety, management ordered two elaborate high-technology light-beam press guards, but never considered the simpler technique of using two palm buttons to trip the press—this would have insured that the operator's hands are no longer in the die area at a fraction of the cost.

Chinese managers are also very eager to learn about Western management practices. To my initial surprise I was often expected to be much more than a technical consultant, and was asked about everything from marketing, business management, and personnel policies to standard cost systems. To tap what they saw as a wealth of foreign knowledge, the factory directors asked me to lecture on a wide variety of subjects, often on short notice.

Tips to enhance communication

Since few Chinese speak English in a typical factory, communication is a persistent problem for the non-Chinese speaker. Even with a good full-time interpreter, I still encountered problems since all factory business was conducted in Chinese. Writing key words down can be a useful supplement to technical conversations—giving the interpreter time to look up unfamiliar expressions. All important communication should be written down in full and translated whenever possible. When using this method to confirm the content of conversations with individuals, I often found that the original discussion was not fully understood.

If documents must be accurately translated into Chinese, double translation is relatively foolproof. After the first translator prepares the Chinese version, a second translates the Chinese back into English without seeing the original document. If what emerges has the same meaning as the original, the translation must be good. Although this is not an easy method to use since translators may lose face, it is indispensable for contracts and other important documents.

The quality and utility of presentations can be improved through several easy steps. Show the interpreter the entire lecture or your notes be-

forehand. Make liberal use of blackboard drawings and charts with Chinese and English notations. (A note of caution regarding Chinese engineering drawings—they often use what they call the "Russian" system of projection. This is basically the opposite of that used in the West—with the top view below the front view, etc.) Each lecture should be translated into Chinese to distribute to the attendees and send to any managers who miss the presentation. I found this an effective way to reach top managers, whose support is vital to the success of new programs.

Making the most of a short stay

There are several ways to ensure that you arrive relatively well-prepared for your China assignment. Find out as best you can what is expected of you before leaving the US, so you can bring along necessary reference material. In many technical fields the factory may have practically no material in English, and little in Chinese. I found myself reinventing forms and procedures that I could have easily brought to China. As a back-up, establish a good contact in the United States who will respond to your telexes from China requesting information unavailable to you there. The foreign commercial service officers attached to the US Embassy and consulates in China can be a valuable source of information on the scene.

Upon arrival, carefully review your assignment with your hosts. Set down in writing priorities and details to be covered during the assignment. If the host's request list is too long or includes areas outside your expertise, make this known from the start. Agree on a rough work schedule for each week shortly after arrival, to avoid major surprises.

Obtain an organization chart (or request assistance in creating one) and have it explained early in your assignment. Although my chart had two names at the top—the director and the Party secretary of the organization—their roles did not seem to overlap much, with the Party secretary more involved in personnel matters than factory operations.

Although bringing in a foreign consultant is not an inconsequential undertaking for a factory, your hosts may need to be reminded that your stay is short and that your programs must be given top priority if the or-

ganization is to derive the maximum benefit from your work. While hosts may try to postpone difficult decisions, remind yourself why you came to China and insist that prompt action be taken on your proposals. Remember that to be polite and save face, your Chinese hosts may avoid giving an answer that will not be considered favorable. While any show of overt anger is taboo, I found mild expressions of displeasure were at times necessary and effective.

The assignment of an experienced manager to work with you is crucial. The proper Chinese co-worker will greatly increase your effectiveness. In a short-term assignment, your co-worker is particularly important—he must see that your programs are completed after you leave China. To help ensure that your plans are implemented, you should write a comprehensive final report listing the status of all recommended programs and, where possible, the name of the person who is responsible for further progress. Having someone carry on who has sufficient clout and is familiar with your recommendations will ensure that your plans do not vanish when you do.

THE CHINA BUSINESS HANDBOOK



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China Adopts Civil Law Principles

Important legal concepts with specific implications for foreign firms

Jerome Alan Cohen

The National People's Congress (NPC) enacted three important new laws in the first half of 1986: the General Principles of Civil Law, a law on wholly foreign-owned enterprises, and another regulating the use of land. In addition, the State Council promulgated a number of new regulations, while provinces, cities, and special economic zones kept up with this legislative pace by issuing a host of local rules affecting foreign business.

Amidst the burst of recent legislation, the General Principles of Civil Law (the "Principles") are perhaps of the greatest long-term significance to China's legal development. Their publication in all of China's major newspapers on April 17 was the biggest news of the day. The *People's Daily* devoted part of its front page and all of pages two and three to the Principles, including a full text, explanation, and an editorial stressing the importance of the Principles. In the following weeks the national press printed numerous essays about the 156 articles of the Principles, which go into effect on January 1, 1987.

The foreign press, in contrast, has focused on other new laws and rules specifically pertaining to foreign business. Yet the General Principles of Civil Law will have an important impact on the international business community, and should not be ignored simply because they are more general. First, the Principles apply to foreigners and foreign companies within China as well as to the Chinese. Broad maxims such as "equality and mutual benefit," fairness, good faith, and trust can be effectively invoked during negotiations in China by the foreign side as well as by the Chinese. That they are now en-

shrined in the Principles gives them added force. Second, a full chapter of the Law is devoted to civil relations involving foreign matters. Finally, specific provisions important to foreigners can be found throughout the new law.

The Principles are simply that—a collection of basic principles. They are not a comprehensive civil code like those adopted by the socialist states of Eastern Europe. In the mid-1950s China had planned to promulgate a European-style civil code based on the socialist model. But the draft code, like the rest of the then emerging Soviet-style legal system, was swept aside by the "anti-rightist" movement of 1957–58.

Work on a new version resumed in 1979, but three years and four drafts later China's legislators decided to postpone publication of a civil code until major economic reforms had taken root, in the belief that these reforms would inevitably have a profound impact on many aspects of civil law. Instead they decided to gradually promulgate a series of separate laws on different civil law topics and also to extract from the fourth draft of the code some fundamental principles common to the various laws to be promulgated. The Principles, they hope, will provide at least basic guidance until all the laws making up the substance of a civil code are enacted—as inheritance and family laws already have been.

The status of 'legal persons'

Many of the Principles relating to international transactions have direct

Jerome Alan Cohen, a frequent contributor to The China Business Review, is a partner in the international law firm of Paul, Weiss, Rifkind, Wharton & Garrison.

bearing on business organizations and their liabilities in China. The provisions concerning "legal persons" are a case in point. Foreign companies have occasionally been disturbed to discover that their would-be PRC counterpart, although a State enterprise, is not "a legal person" and thus is not authorized to sign a contract. The Principles spell out the conditions that a State enterprise must meet to become a legal person, restating the existing requirement that the enterprise be approved and registered and adding, among other requirements, that each enterprise must have articles of association, which most have lacked to date. The existence of such articles of association will be helpful to foreign companies by providing a better understanding of the structure and functions of PRC organizations.

The Principles go on to state that enterprises that are legal persons "shall engage in operations within the scope of operations for which registration was approved." Companies cannot assume that a Chinese legal person seeking to sign a contract with a foreign company is authorized under its registration approval, business license, and articles of association (if any exist) to engage in the contemplated transaction. If such documents permit participation only in the coal industry, for example, but the contemplated contract concerns hotel construction, the parties have a problem. The Principles thus appear to justify a foreign company's request to inspect its would-be partner's documents, to assure itself that the prospective partner is not only a legal person but also authorized to sign a contract for the type of project involved. In one recent negotiation it was discovered that the Chinese company's business license would expire

after five years, although the contract envisaged a 30-year venture. In these circumstances, if the Chinese authorities will not agree to modify the Chinese company's business license, the foreign company should seek another partner.

Since the Principles also apply to Chinese-foreign equity joint ventures, cooperative ventures, and wholly foreign-owned enterprises in China, foreigners should make certain that the constituting documents of such entities are carefully drafted, and should scrutinize the business license received upon registration. Otherwise, they could run into trouble if they attempt to expand the activities of these entities at a later date.

Chinese legislation authorizing the establishment of Chinese-foreign equity joint ventures and wholly foreign-owned enterprises specifies that these entities are legal persons, and therefore fully qualified to enter into contracts and engage in economic activities. The legal status of Chinese-foreign cooperative ventures, which can take various forms, has been less clear. The Principles address this issue, stating that to be considered legal persons in China, Chinese-foreign cooperative ventures must meet the conditions of a legal person as set forth in the Principles themselves. One of those conditions is that the venture "must be capable of assuming civil liability independently." Yet the Principles do not make clear when a cooperative venture is capable of doing so. That issue presumably will be clarified in forthcoming legislation on cooperative ventures, the enactment of which has been long delayed by debate over this very point among others.

China's State agencies ordinarily do not sign business contracts, leaving this to the State enterprises under their control. Exceptions occur, however, and the Principles provide that "agencies that have independent funds shall be qualified as legal persons on the day they are established." Apparently no registration is necessary to qualify, but there is no statutory definition of "independent funds" and no means of determining when a State agency is deemed to possess them.

Insight into the relationships between Chinese enterprises

Foreign companies are sometimes asked to sign contracts with a party

that purports to be a domestic joint venture established by two or more Chinese State enterprises. On one recent occasion a Chinese party to a contract in the Shenzhen Special Economic Zone produced documents that described it as a joint venture established by no fewer than a dozen State enterprises, most of them from outside the zone. The Principles offer some criteria for understanding the complex arrangements Chinese enterprises may form among themselves and utilize in their relations with foreign companies. Furthermore, according to the Principles, each type of arrangement has different legal consequences that foreigners should be aware of.

- If the Chinese enterprises have formed a new economic entity that is a legal person, the new entity will be responsible for its civil obligations to the extent of its assets. An implicit assumption of the Principles appears to be that the Chinese enterprises will be insulated from liability for the venture's obligations so long as they have made their required capital contributions to the venture. The forthcoming corporation law is expected to clarify this point.

- If Chinese enterprises set up an organization that is not a legal person itself but is jointly managed by them, these enterprises are to be held individually liable for the obligations of the organization either in proportion to their respective shares of the capital contributions or in accordance with the terms of the agreement between them. The enterprises can be jointly and severally liable for obligations of the organization if their agreement so provides, or if the law so requires.

- If the Chinese enterprises simply contract to cooperate by each undertaking certain responsibilities, each is to be liable for its own obligations in accordance with the contract.

Thus, a foreign company that is considering entering into a contract with two or more Chinese State enterprises that intend to sign the contract collectively as a single party—as frequently occurs—should determine the nature of that party and the extent to which each of the enterprises involved is to be responsible for obligations under the contract. Otherwise the foreign company may later discover that its Chinese partners have not committed themselves as fully as appeared to be the case.

Civil and criminal liability

Foreign companies should also ask about the assets of each contracting Chinese State enterprise and the extent to which these assets are legally available to meet obligations incurred by the enterprise. The Principles state that legal persons must have "the necessary property or funds," that for State enterprises to be legal persons they must have "the amount of funds stipulated by the State," and that State enterprises "shall bear civil liability with the property that the State has granted them to operate and manage."

These are tantalizing allusions. But the Principles do not identify the rules governing allocation of State assets to State enterprises, nor do they explain how foreigners can determine the financial situation of such enterprises. And although the Principles imply that there are no restrictions upon the ability of a State enterprise to use its assets to satisfy its legal obligations, some Chinese commentators suggest that only certain assets are available for this purpose. Perhaps the forthcoming bankruptcy law for State enterprises as well as the corporation law will clarify this murky area. Prior to the appearance of these much-needed laws, however, foreign companies should strive to obtain adequate assurances in their contracts.

The Principles do not dispute the presumption (yet to be fully confirmed by legislation) that foreign investors in Chinese-foreign cooperative ventures that are legal persons, as well as in equity joint ventures and wholly foreign-owned enterprises, are exempt from liability for obligations of such entities—assuming the foreign investors have made their pledged capital contributions.

Yet the Principles relate only to civil, and not to criminal, obligations. Whether legal persons can ever be held criminally liable has yet to be determined and currently is a subject of debate in the Chinese legal press. Unless and until legal persons are exempted from criminal liability, Chinese authorities could conceivably look to the assets of a foreign investor should its company in China be unable to pay a criminal fine.

A treasure trove of information

The Principles cover many other issues relevant to companies doing

business in China. Although some portions of the Principles restate provisions found in China's constitution and domestic and foreign legislation, other portions contain significant innovations. Since the Principles are applicable to foreign-related matters, the fact that a provision already appearing in domestic legislation is restated in the Principles is worth noting.

• **On partnerships between individuals:** The Principles, which emphasize rights and relationships between private parties, authorize individuals to establish partnerships. Whatever their internal arrangements, such partners are generally made jointly and severally liable for debts of the partnership.

• **On the use of agents in China:** An entire section of the Principles regulates the creation and termination of the principal-agent relationship and the rights, duties, and liabilities derived from it. A company using a middleman in China should note that failure to repudiate a civil act that the company knows has been performed in its name shall constitute consent to the act.

• **On creditors' rights:** This section will be of considerable interest to foreign financial institutions. One of its most interesting provisions permits debtors to arrange for payment in installments if their creditors consent or a court so decrees.

• **On intellectual property:** The Principles mark an advance in the law of intellectual property by recognizing "the right of authorship (copyright)" and confirming the right to publish works and to be paid for them, in accordance with law. Chinese legal specialists usually assume that implementation of these new rights must await promulgation of the copyright legislation now being drafted, but the Principles are not explicit on this point. Indeed, they authorize those with infringed rights of authorship to demand an end to the infringement, elimination of its effects, and payment of compensation for damages.

• **On ethics:** Both specific and general provisions of the Principles reflect ethical values that should be noted by foreign companies. For example, "if unjust enrichment acquired without legal basis results in another person's loss, the unjust enrichment shall be returned to the person suffering the loss." More-

over, "a person who, in order to protect another person's interests, manages or provides services on behalf of such interests without legal or agreed-upon obligation, shall be entitled to demand that the beneficiary reimburse all necessary expenses incurred therefor." In addition to denying legal effectiveness to acts of a party that have been induced by fraud, coercion, or other illegitimate means and to acts that "take legal form in order to conceal illegal purposes," the Principles also authorize a party to obtain relief from a court or arbitration tribunal if it has "seriously misunderstood" the nature of its act or if an act would be "clearly unfair."

While welcoming the prospect of assistance that such provisions offer, the wary foreigner may also recognize that the very vagueness of these provisions constitutes a two-edged sword that could introduce unwelcome instability into transactions. That Chinese ethical values in commercial transactions may differ from those of foreigners is hinted at by the Principles' statement that an assignor of contract rights and obligations "must not seek profit" from the assignment, a caveat that is absent from the comparable provision of the PRC's Foreign Economic Contract Law.

• **On tort liability:** The Principles contain a number of provisions that advance understanding of tort liability in China and its application to foreigners. For example, they spell out the basic categories of compensation if wrongful conduct causes personal injury. The wrong-doer is required to reimburse the injured person for medical expenses and income lost because of absence from work, and provide a living allowance if long-term disability results. If death results, in addition to paying funeral expenses, the wrong-doer is required to pay the "necessary living expenses" of the dependents of the deceased.

The Principles have reinforced the recent regulations of the State Council making "product liability" the law of China, applicable to enterprises with foreign investment as well as others. Article 122 provides that the "manufacturer and distributor of a product shall, in accordance with law, assume civil liability if, because of its sub-standard product, another person suffers harm to property or person." If a carrier or warehouse is

responsible for the harm, the manufacturer and the distributor have the right to "demand compensation for the loss," a phrase that may be clarified by the detailed implementing rules that will follow the State Council regulations. No mention is made of liability to be assumed by the licensor of the technology used to manufacture a defective product.

The Principles also impose virtually absolute liability upon those who engage in especially hazardous activities that cause harm. They can escape responsibility only if they prove that the victim deliberately created the harm, an unlikely possibility. Those who pollute the environment will be liable for harm caused to others; so too will the owner or manager of a building if it or any of its fixtures falls on others, unless he can prove he was not at fault.

Reconciling differences

Inevitably, each new law issued in China complicates the task of those who interpret and apply the expanding body of PRC legislation. The Principles must now be reconciled not only with the constitution and other laws promulgated by the NPC but also with the many regulations and other measures already issued by the State Council, ministries, and local governments. In some respects the Principles appear to contradict specific provisions in previously issued regulations, casting doubt on the continuing validity of such provisions and thus creating uncertainty for the transactions they govern. In many instances such contradictions are surely inadvertent, arising because the Principles and the regulations were drafted by different groups. Nevertheless the legal consequences will have to be dealt with in a way that does not upset commercial relationships.

This is only one of many challenges confronting China's legal agencies as they begin to interpret and apply the concepts embodied in the Principles and to enact further legislation based upon them. If the experience of other countries is any guide, and assuming China's current political stability and direction continue, decades may pass before an effective and comprehensive civil law is in place. Yet by enacting the Principles, China has taken another impressive step forward in its long legislative march. 完


INTERNATIONAL HYDRON AND BAUSCH & LOMB MAKE CONTACTS

After nearly two years of negotiations, two major manufacturers of optical products, International Hydron and Bausch & Lomb, have recently signed joint ventures to produce contact lenses for the estimated 160 million Chinese citizens who wear glasses.

International Hydron Corp. of Long Island joined with the Shanghai Globe Biotechnology Development Corp. to form the Shanghai-Hydron Contact Lens Corp. The equity joint venture started producing contact lenses last March and has a 10-year duration. International Hydron supplies the equipment, materials, and training for the 30 Chinese workers at the plant. IH has also trained five Chinese sales representatives to market both daily and extended-use contact lenses to doctors, eye clinics, and ophthalmic exhibitions. In addition to doing the marketing, the Chinese side supplies the plant, workers, and managers.

The joint venture plans to produce 500,000 lenses in 1987 and 1 million in 1988, and will eventually export some to Hong Kong. To promote its products among a vast consumer audience, the JV is advertising not only in the print media but on television as well, with weekly commercial spots on CBS programs now airing in China.

To repatriate profits, IH plans to reinvest its profits in another Chinese venture, which would be wholly foreign-owned and make items for export. IH expects to completely transfer its technology within five years.

IH President Martin Pollak is optimistic about IH's future in China because "vision care is a necessity, not a luxury, and our product is both state-of-the-art and cheaper than eyeglasses." The company is awaiting approval for two other ventures to produce ophthalmic products for contact lenses in Xi'an and Beijing.

Sharing IH's optimism is Bausch & Lomb Inc. of Rochester, NY, whose joint venture, Beijing Contact Lens Ltd., will produce lenses under the B&L name and accompanying lens solutions under the joint venture name. Bausch & Lomb provides the raw materials, equipment, and technology; the Chinese partner, known as the Beijing 608 Factory, will supply the factory, workers, and utilities. B&L uses the centrifugal method of lens making which, like IH's spin-cast method, is more efficient than the lathe method the Chinese have used to make 100,000 lenses per year for the last 10 years. Over 80 percent of the lenses made will be for the domestic market, and the rest will be exported. The average price within China will be ¥40 (about \$11) a pair.

H. O. Johnson, president of international operations at B&L, says the three-year duration of the contractual JV gives both sides an opportunity to test the market, after which he expects an equity JV will be set up.

Johnson expects the JV's export sales to cover profit repatriation, and says Bausch & Lomb will also use the

RMB it earns from domestic sales to purchase other optical products from a factory in another province for export. Approval of RMB purchase of optical products has been given by the relevant local government.

Like IH, B&L plans to market the lenses nationwide, but advertising plans, which will "probably" include television, are still under discussion. —PT

RJR NABISCO TO TEST VARIOUS PRODUCTS IN CHINA

After experimenting with sales in China's Friendship stores and other foreign currency outlets, RJR Nabisco Inc. is poised to enter the domestic market with products made by three joint ventures.

The success of R. J. Reynolds Tobacco International's 1980 venture in Xiamen to produce Camel Filters for foreign currency outlets led to the approval this year of a \$21 million, 18-year joint venture with the Xiamen Cigarette Factory. The joint venture, called the China-American Cigarette Company Ltd., will produce 2.5 billion units per year of Winston, Camel, and a third brand of cigarettes, developed specifically for the domestic market. The company currently plans to export one-sixth of the factory's production of the jointly owned brand.

The company reports that, although central government approval took longer than expected, the joint venture is now firmly on track. Construction of the factory will begin soon, with production slated to commence in late 1987. Reynolds will source inputs domestically as much as possible, but will import some tobacco to maintain the familiar taste of its established brands.

RJR Nabisco's Nabisco Brands subsidiary has set up the Nabisco-Yili Biscuit and Food Company in Beijing. The \$8.8 million joint venture, 51 percent controlled by RJR Nabisco, will start producing Premium Saltine and Ritz crackers later this year. The venture is targeting domestic markets, but at least 10 percent of the 5,000-ton annual production will be exported to other Asian countries.

The Delmonte division will continue its experiment with a small joint venture producing vegetables in Shanghai. Delmonte is supplying vegetable strains and later assisting with processing and canning the vegetables. The venture plans to sell canned corn, tomatoes, peas, beans, and asparagus in domestic and foreign markets in a few years. Foreign exchange stores have already proven a viable market for imported Delmonte canned fruits and vegetables, and the company is looking forward to entering China's expanding convenience food market.

A new business unit, RJR Nabisco China, recently opened in Hong Kong to oversee the company's diverse China operations. Since each product division in the RJR Nabisco conglomerate usually manages its own activities, this move to centralize control demonstrates the importance the company places on its rapidly diversifying China activities. —JSS

书刊介绍



Zhou Enlai: A Biography, by Dick Wilson. New York: Viking, 1984. 349 pp. \$17.95.



Zhou Enlai—A Profile, by Percy Jucheng Fang and Lucy Guinong J. Fang. Beijing: Foreign Languages Press, 1986. 238 pp. \$8.95.

Communist revolutionary for over 50 years and premier of the People's Republic of China from 1949 until his death in 1976, Zhou Enlai is still remembered warmly by ordinary Chinese as the "people's premier." Indeed, Zhou's posthumous standing surpasses that of his superior during his lifetime, Chairman Mao Zedong. Part of Zhou's popularity stems from his reputation, especially among intellectuals, as the highest-ranking proponent of rationality and decency during the Cultural Revolution. Although never a prominent spokesman for reform, Zhou promoted economic policies consistent with today's open door policies. And his sheer staying power in the midst of the many bitter internecine struggles of the Communist Party has also contributed to his legendary aura. Not even Mao could claim, as Zhou did, uninterrupted service in the Communist Party Politburo from the 1920s to the mid-1970s. Zhou was one of only a few top leaders to have escaped political ruin at the hands of the mercurial and suspicious chairman.

On this 10th anniversary of Zhou's death, Westerners hoping to understand Zhou's popularity, political longevity, and the times in which he lived have two recent biographies to choose from: *Zhou Enlai: A Biography*, by British sinologist Dick Wilson; and *Zhou Enlai—A Profile*, written by Percy and Lucy Fang, a husband and wife team who have spent many years working for the Chinese mass media.

Although published two years earlier, and written by a man with far less access to official Chinese sources, the Wilson biography is the more informative book. Neither, however, comes close to unmasking the real Zhou Enlai.

One of Wilson's major preoccupations throughout his book is the relationship between Zhou and Mao, who were different in so many ways, yet successful collaborators for four decades. Zhou was a French-educated intellectual who traveled frequently. Just as Zhou was cosmopolitan and urbane, Mao was parochial and coarse. Of peasant origin, Mao never outgrew his disdain for intellectuals and never visited the West, traveling abroad only in 1950 and 1957—to the Soviet Union.

Wilson's book yields clues to the partnership, many of which lie in Zhou's personality and political style. As Wilson and many others, including the Fangs, point out, Zhou was an extraordinarily competent and hard-working administrator, shy of the limelight, willing to forego the number-one position—all of which complemented Mao's own strengths, and made Zhou both useful and relatively nonthreatening to Mao. These personal skills explain how Zhou was able to gain Mao's confidence despite his vehement opposition to Mao's policies of guerrilla warfare in the early 1930s and his higher ranking in the Communist Party at that time.

Wilson's narrative highlights Zhou's deftness at forging political compromise and avoiding factional entanglement. Although he influenced and befriended many prominent figures in the Communist movement, he was never perceived as the head of a clique. Even before the rise of Mao, Zhou had already earned a reputation as a man who would never frontally assault his superiors but would abandon them when politically expedient—traits that have won him praise for flexibility and criticism for unwillingness to take a strong stand.

Wilson also hypothesizes that Zhou

was useful to Mao as a counterweight to political figures by whom Mao felt more threatened, such as Liu Shaoqi and Lin Biao. Zhou and Liu Shaoqi, Mao's heir apparent until the Cultural Revolution, never got on well, according to Wilson—a situation that can hardly have displeased the Chairman. Zhou only rose to number two in the very last years of Mao's life—and this proximity was apparently starting to drive a serious wedge between the two, culminating in Mao's boycott of Zhou's funeral.

Wilson does point out—although perhaps with not as much emphasis or detail as he might have—the role that policy and institutional, as well as personal factors played in the Zhou-Mao alliance. Zhou supported Mao's efforts to rectify the Communist Party—and benefited from being associated with the State Council's administrative apparatus, which Mao saw as a far lesser threat to his own base than the Communist Party and the army. In this respect, Zhou differed considerably from Deng Xiaoping, who as secretary general of the Party fell hard during the Cultural Revolution.

Finally, as Wilson emphasizes, Zhou's skill in dealing with the outside world made him very useful to leaders who lacked these skills. Zhou, with his charm and knowledge, was a model "handler of barbarians"—so skillful that many did not even realize they were being handled.

There were limits, of course, to the Zhou-Mao relationship, which became obvious to Western readers who trace Zhou's tortuous and often fruitless efforts to save allies during the Cultural Revolution from radicals acting on Mao's behalf. As Wilson perceptively notes, "one of the unwritten rules seemed to be that while Zhou enjoyed a very good personal working relationship with Mao, it was left to him to make his own peace with Mao's followers." For his own part, as Wilson points out, Zhou studiously avoided participation in building the personality cult of

Chairman Mao.

There are several problems with Wilson's book, the most important of which is not of his own making. This is the paucity of direct, reliable source material. Very few of the people close to Zhou are available for interviews. And Zhou, always the quintessential diplomat, revealed little about himself or his opponents. For these reasons, Wilson is often left simply to speculate about Zhou's motivations, actions, and whereabouts. Relying on uncorroborated material from sources of uncertain reliability, Wilson cites, for example, Mao's purported complaint in 1937 that "Zhou Enlai bungled important matters. How could an envoy be allowed to act at will when he receives an order he finds displeasing?" But in this case Wilson should have known better: the statement comes from a defector who probably felt malice toward both men.

Another flaw of the book lies in its organization. Adhering to a strictly chronological narrative, Wilson is forced into a number of abrupt transitions from high politics to mundane personal details and back. Balance is also lacking in Wilson's account of Zhou's role in foreign and domestic policies. While Zhou may in fact have delegated more of the economic work to subordinates, the reader cannot help wondering whether the relatively abundant information available outside China on Zhou's foreign policy initiatives slanted Wilson's coverage. Little attention is given the key economic issues and decisions that continue to shape China today, while there is too much emphasis on the political battles that will be forgotten by all but specialists.

Although the numerous anecdotes of Zhou Enlai, the hard-working, self-sacrificing, kind man begin to wear on the reader after a while, Wilson does at least recognize a darker side to Zhou's character. He observes that many of Zhou's kindnesses to foreigners were calculated for their political effect, and points to the ruthlessness apparent in Zhou's 1931 decree ordering the family of an informer to be slaughtered.

The Fangs' biography, by contrast, discerns no such ruthlessness in Zhou's character. Although written in Western idiom, their book rarely strays from the official Chinese government view of Zhou Enlai, the saint and model Communist. The Fangs'

betray a tendency quite characteristic of Chinese historiography to attribute political accomplishment to the good personal character of the leader. Zhou is portrayed as incapable of evil or mistakes, to the extent that he becomes unrecognizable as a human being. The influence of institutional factors on the course of modern Chinese politics is completely ignored.

Unlike Wilson, the Fangs lend no chronological coherence whatsoever to their biography. Crucial periods in Zhou's career are omitted whenever they do not jibe with the propaganda image. The possibility of sharp divisions between Zhou and prominent political figures like Mao and Liu Shaoqi is not even broached.

The Fangs' book, however, is not without its revelations. Western readers will begin to get a sense of the complex web of personal relationships at the top of the political structure and some useful background information on a few contemporary figures, such as Vice Premier Li Peng, one of Zhou's adopted children.

Much of the book deals with the Cultural Revolution. The Fangs provide new information about the ins and outs of the factional struggle at the top and Red Guard depredations against the elite. Zhou's struggle to maintain decency is dramatically, and probably accurately, documented. But what comes through even more is the brutality of life around him. It is in this section of the book that the reader may best come to understand Zhou's enduring popularity.

The ultimate, perhaps unanswerable, question is to what extent Zhou is to be considered apart from the Party he worked for and the system he helped create. It hardly seems fair to give Zhou credit for all the Communist Party's many successes and strong points, but none of the blame for its failures and weak points.

The Fangs' single criticism of Zhou speaks tellingly to this point: "There was perhaps too much of the suave gentleman and not enough of the candid Marxist in Zhou Enlai. He was given to too much shadowboxing with Mao Zedong rather than taking Mao on in a face-to-face contest of wills, as sometimes seemed not only necessary but imperative."

But both Wilson and the Fangs end up with the same assessment: that compared to most of the other lead-

ers, and particularly the radicals, Zhou's intentions were good, and he worked harder to translate his ideals into practice. The Fangs are probably correct to say that "... because he had struggled so hard in the Cultural Revolution to keep the ship of state afloat; because he had done so much to ward off attacks and cushion blows for victims of that terrible period; because he had succeeded in holding the Gang of Four at bay and preventing them from seizing supreme power—all this from a hospital bed in his last two years—the people of China today are inclined to pass over failings on Zhou Enlai's part."

—Martin Weil

On Socialist Democracy and the Chinese Legal System: The Li Yizhe Debates, edited by Anita Chan, Stanley Rosen, and Jonathan Unger. Armonk, NY: M. E. Sharpe, 1985. 310 pp. \$35 hardcover, \$14.95 paperback.

In 1974, amidst the tumult of political infighting that followed the Cultural Revolution, a small group of non-Party intellectuals pasted up a series of wall posters in Guangdong Province attacking the breakdown of due process of law and the rise of arbitrary rule by a "newborn bourgeoisie." These posters would form the basis of the dissident, albeit Marxist, manifesto "On Socialist Democracy and the Legal System." So great was the impact of the posters on the young people of Guangdong that the "Li Yizhe Group" soon attracted the attention of high Party officials, including Guangdong Party First Secretary Zhao Ziyang.

This book chronicles the origins and experiences of the Li Yizhe group, including the events leading to the creation of their dissident manifesto, their imprisonment, and subsequent rehabilitation in 1978, and the activities of the group's two most influential members. The book consists mainly of essays by the Li Yizhe group, student petitions on their behalf, and Party criticism.

While the documents may be heavy going for readers not well versed in Marxist theory and post-1949 Chinese history, the editors have compensated for this by providing concise introductions to each article and extensive footnotes. This book is worth reading for a glimpse into the little-understood nature of political dissent in China. —Abigail Jahiel

Betsy Saik
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 Betsy Saik.

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

Agricultural Commodities

Harry Warner (UK)	Received order to supply 34 pedigree pigs. \$10,354 (£6,800). 6/5/86.
Norbest Inc. (US)	Signed marketing agreement to export Chinese turkey meat to Pacific Rim. 7/2/86.

Agricultural Technology

Rober (W. Germany)/Bureau of State Farms and National Seed Co.	Signed contract to supply seed processing equipment for World Bank-supported Seeds Project. \$1.1 million. 3/27/86.
Simon-Day Ltd. (Canada)	Awarded contract to provide two seed cleaning plants and equipment. 4/86.
C. Itoh & Co. Ltd. (Japan)/Bureau of State Farms and National Seed Corp.	Signed contract to supply seed processing equipment for World Bank-supported Seeds Project. \$1.2 million. 4/10/86.
Kleinwanzlebener Saatzucht AG (W. Germany)/Heilongjiang General Bureau of State Farms	Signed contract to supply sugar beet seed processing equipment for World Bank-supported Heilongjiang Land Reclamation Project. \$1.1 million. 4/22/86.
EEC Commission/Jiuquan Academy of Agricultural Sciences, Gansu	Will provide technology and training to develop sugarbeet production. 5/16/86.

Chemicals and Chemical and Petrochemical Plants and Equipment

Kulsyre Og Torisfabriken Union A/S (Denmark), part of Norsk Hydro (Norway)	Received order to supply carbon dioxide plant. 3/6/86.
De Danske Sukkerfabrikker (Denmark)	Awarded contract to build glucose production plant. \$6.1 million (DK50 million). 4/2/86.
Toho Engineering Co. Ltd. (Japan)/Tianjin	Will build 20,000 TPY propylene oxide plant. 4/9/86.

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

Mitsui & Co. Ltd. (HK) (agent for Indonesian supplier)/Guangdong Provincial General Bureau of State Farms and Land Reclamation	Signed contract to supply urea for World Bank-supported Rubber Development Project. \$4.6 million. 4/11/86.
Mitsubishi Kasei Vinyl Co., subs. of Mitsubishi Chemical Industries Ltd. (Japan)/Shanghai and Tianjin	Sold two 10,000 TPY polyvinyl plants. \$11.1 million (¥2 billion). 4/15/86.
Chiyoda Chemical Engineering and Construction Co. Ltd. and C. Itoh & Co. Ltd. (Japan)/CNTIC	Received order to supply two 40,000 TPY vinyl chloride plants for Beijing and Jinxi. 4/22/86.
Chiyoda Chemical Engineering and Construction Co. Ltd. and C. Itoh & Co. Ltd. (Japan)/CNTIC	Received order to supply 15,000 TPY vinyl chloride manufacturing plant for Fuzhou. \$15 million (¥2.5 billion). 5/86.
Nitto Boseki Co. Ltd. and Western Trading Co. Ltd. (Japan)/China Construction Material and Equipment Import Corp.	Will supply manufacturing technology to build asbestos plant. 5/86.
Akzo Engineering BV (Netherlands)/Qingdao	Will build 2,000 TPD caustic soda plant. 5/12/86.
Chisso Engineering Co. and Mitsubishi Corp. (Japan)/Tianjin ITIC and Zhong He Chemical Plant, Tianjin	Signed contract to construct anhydride processing plant. 5/19/86.
Mitsubishi Kasei Vinyl Co., Kanematsu-Gosho Ltd., and Mitsubishi Kasei Technoengineers Ltd. (Japan)/Tianyuan Chemical Factory, Shanghai and Tianjin Chemical Factory	Concluded agreement to sell two 10,000 TPY vinyl chloride paste plants. \$12 million (¥2 billion). 5/20/86.
Dow Chemical Co. (US)/Beijing Yanshan Petrochemical Corp. and China Yanshan United Foreign Trade Co.	LIC: Signed agreement to construct polystyrene plant near Beijing including technology, design, engineering, and procurement. 6/20/86.
Allen-Sherman-Hoff (US)/Huaneng International Power Development Corp.	Received order to supply ash-handling systems for Babcock and Wilcox consortium generating stations (see <i>The CBR</i> May-June 1986, p. 71). \$13 million. 7/17/86.
Pultrex Co. (UK)/Qinhuangdao Yaohua Glass Works	Supplied shaped glass fiber reinforced plastic production technology and equipment. 7/21/86.
Mobil Oil Hong Kong Ltd./SINOPEC International and Shanghai Gaoqiao Petrochemical International Trade Co.	Signed agreement to supply, blend, and package lubricants. 7/25/86.

Construction Materials and Equipment

Caterpillar Mitsubishi Ltd. (Japan)/Ministry of Railways	Will supply 34 bulldozers and four-wheel loaders. 5/86.
Durable Steel Homes (US)/NA (Chongqing)	LIC:Signed letter of intent to supply steel frame technology. 5/86.
Prince Cladding (Netherlands)	Won orders to supply skylights. \$537,395 (DG1.5 million). 5/22/86.
British Steel Corp. (HK) and Weatherwise (UK)/Guangdong	Awarded contract to supply steel walling and roofing for sports complex. \$1 million. 6/86.
Pianelli and Traversa Group (Italy)/China International Economic Consultants (CIEC)	Signed agreement to aid and develop contracts to supply advanced technology in construction components and plants sector. 6/13/86.
U.S. Machinery Inc./Pingshuo First Coal Co., Shanxi	Shipped 200-tonne brick-crushing plant. \$900,000. 6/23/86.
American Industrial Chemical Corp. and Commercial Metals Co. (US)/Guizhou Metallurgical Co. and Guizhou Refractory Materials Factory	CT:Provided brick pressing machines. \$535,000. 7/11/86.
GEC (Hong Kong) Ltd. / Tianhe Sports Complex, Guangzhou	Won contract to supply lighting. \$578,035 (HK\$4.5 million). 7/14/86.

Electronics and Electrical Equipment

Alps Electric Co. (Japan)	Signed provisional agreement to provide manufacturing facilities to produce variable resistors for volume control, tuners, and switches. 4/86.
Ormer Computer Consultants BV (Netherlands), Northern Telecom (UK), subs. of Northern Telecom (Canada), and Zilog, subs. of Exxon (US)/Fuzhou	Will build computer factory, with Ormer managing project and other partners supplying computer parts. \$140 million (DG360 million). 4/17/86.
Siemens AG (W. Germany)/State Education Commission, Beijing	Signed contract to supply computer equipment for World Bank-supported Second University Development Project. \$21.7 million. 4/21/86.
Vactec Inc. (US)/No. 2 Automotive Works in Shiyuan, Hubei	Awarded contract to supply cathodic arc broach coating system. \$1 million. 5/16/86.
Fujitsu Ltd. (Japan)/Agricultural Bank of China and North China Institute of Computing Technology	Reached agreement to develop computerized teller-support system. 5/31/86.
Far East Computers Pte. Ltd. (Singapore), subs. of Hindustan Computers (India)/China State Statistical Bureau	Received order under UN Fund for Population Activities to supply 48 microcomputers to be installed in Shaanxi and Sichuan. \$177,500 (\$380,000). 6/86.
Far East Computers Pte. Ltd. (Singapore), subs. of Hindustan Computers (India)/Microelectronics Center of Nanjing Institute of Technology	Received order to supply CAD/CAM system and peripherals. \$136,674 (\$300,000). 6/86.
Plasma Technology Ltd. (UK)	Granted permission by Cocom to implement contract to supply 19 etching and deposition machines used in electronic chip production. \$1.5 million (£1 million). 6/6/86.
Concurrent Computer Corp., subs. of Perkin-Elmer Corp. (US) and Sun Hung Kai (China) Ltd. (HK)/Shanghai Research Institute of Materials	Sold minicomputer system. 6/9/86.
Bridgeport Machines Ltd. (UK)	Received orders for 18 electric discharge machining products. \$1.1 million (£750,000). 6/10/86.

Concurrent Computer Corp., subs. of Perkin-Elmer Corp. (US)/Nanhai West Oil Corp. of MOPI

Installed minicomputer system. 6/30/86.

Siemens AG (W. Germany)/Dalian

Signed agreement to supply programmable control unit. 7/23/86.

Engineering and Construction

Kampsax International and Vejdirektoratet (Denmark)	Won contract to provide road-building consultancy and training services. \$606,281 (DK5 million). 4/9/86.
Consortium headed by CLASP International and J. T. Thorpe and Laboratory Furnishings (UK)/Institute of Chemistry, Beijing	Awarded contract to refurbish laboratory. 5/2/86.

Finance

Hill Samuel & Co. Ltd. (UK)/Shenzhen SEZ Development Co.	Signed agreement to promote trade between Shenzhen SEZ and British companies, with UK providing financial advice and Shenzhen providing assistance in Chinese taxation, trading, and investment policies. 5/86.
CCIC Finance Ltd. (HK-JAP-US-PRC JV)/China Nanhai Oil Joint Venture Corp.	Appointed as financial adviser. 5/24/86.

Food Processing and Food Service

Nippon Suisan Kaisha Ltd. (Japan)/Guangzhou Aquatic Products Co.	Will supply 8 million TPY boiled fish paste production facilities. \$1.2 million (¥200 million). 5/86.
Hrch. Huppmann GmbH (W. Germany)/Huaguang Beer Factory, Shanghai	Received order to supply brew vessel. 5/23/86.
(HK)/Chinese Aviation Service Co., Guangdong	Signed contract for aviation restaurant. 7/10/86.
B.K. International Corp. (US)/Guangdong, Anhui, and Shandong	Signed contracts to oversee processing of pineapples, tomatoes, and peanuts in China including providing bank loans and managing sale of processed foods. 7/28/86.
Fisher and Paykel Ltd. (New Zealand)/Zhejiang Import Corp.	Received order to supply refrigerator production line. \$1 million. 7/86.

Machine Tools and Machinery

T. H. Dixon & Co. Ltd. (UK)	Received three contracts to supply precision coating and sheeting equipment. \$1.5 million (£1 million). 3/86.
Berkeley-Davis, Inc. (US)/Baoshan General Iron and Steel Works, Shanghai	Will supply lap welder and auxiliary equipment. \$80 million. 5/86.
Daiichi Jitsugyo(Japan)/MACHIMPEX	Will supply 300,000 unit/month throwaway light manufacturing plant. \$599,413 (¥100 million). 5/86.
T. W. Ward Co. (UK)	Signed contract to supply reconditioned machinery including gear grinding machines, press brakes, flame cutters, and horizontal and vertical borers. \$1 million. 5/86.
BBX Cutters (UK)	Won contract to supply tooling for steel slitting machine. \$761,300 (£500,000). 5/21/86.
Kajaani Electronics Ltd., subs. of Valmet Corp. (Finland)/Paper Industry Research Institute of Ministry of Light Industry	Will cooperate in developing measuring technology for paper and pulp industry. 5/28/86.
Stenner Ltd. (UK)	Awarded contract to supply machinery for a south China sawmill. \$456,780 (£300,000). 6/17/86.
Verson Allsteel Press Co. (US)/NA (Jinan, Shandong)	Signed contract to produce 10 heavy presses. 6/30/86.
Danica Elektronik A/S (Denmark)	Received order for electromedical equipment. \$266,764 (DK2.2 million). 5/9/86.

Metals, Minerals, and Processing Technology

Showa Aluminum Industries K.K., subs. of Showa Denko K.K. (Japan)	Will supply secondhand facilities for refining aluminum. \$6 million (¥1 billion). 5/86.
Taiyo Tekko Co. Ltd. (Japan)/MACHIMPEX and Zhaoqing Pneumatic Fittings Factory, Guangdong	Will supply technology to produce high pressure air cylinders. \$1.2 million (¥200 million). 5/86.
Skeqa AB (Sweden)/China Metallurgical Import/Export Corp.	LIC:Signed agreement to supply technology to produce ore mill rubber linings. \$3.2 million (SK23 million). 5/86.
Reliance Electric Co. (US)/Shanghai No. 2 Iron and Steel Works	Will refurbish US LTV Steel Co. mill sold to Shanghai. 5/26/86.
KHD Humboldt Wedag AG and Erich Friedrich AG (W. Germany)/Angang Mining Engineering Institute and Anshan Iron and Steel Complex, Liaoning	CT:Signed contract to build 2.4 million TPY steel slag recycling plant. \$5 million. 6/2/86.
Mannesmann Demag AG (W. Germany)/CNTIC and Tianjin	Signed contract to build 500,000 TPY steel pipe plant. \$359 million (DM800 million). 6/19/86.
Nippon Steel Corp., Nippon Kokan K.K., Kawasaki Steel Corp., Sumitomo Metal Industries Ltd., Kobe Steel Ltd., and Nisshin Steel Co. (Japan)/MINMETALS	Will supply 2.5 million tonnes rolled steel products. 7/26/86.

Military Equipment

(USSR)/Lhasa	Sold aircraft to transport army units stationed in Tibet to and from Beijing. 5/28/86.
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Mining Equipment

Morrison-Knudsen Co. Inc. (US)/China National Coal Development Corp.	Signed contract to develop computer-based management services for World Bank-supported Changcun Coal Mining Project. \$1 million. 5/13/86.
Robbins Co. (US)/Ministry of Coal Industry	Will design and manufacture two raised boring systems. 6/20/86.

Packaging Equipment

W. R. Grace & Co. (US)	Will establish Grace China Ltd. wholly owned subsidiary in Minhang Industrial Zone, Shanghai, to supply Chinese can-making factories with sealing compound. 6/4/86.
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Petroleum, Natural Gas, and Related Equipment

Arrowoil Tools Co. (US)	Signed contract to supply casing accessories, cement extruding tools, and site screw gauges for World Bank-supported Zhongyuan Oilfield Development Project. \$97,573. 2/86
Baker Production Co. (US)	Signed contract to supply external casings for World Bank-supported Zhongyuan Oilfield Development Project. \$34,310. 2/86.
EGG Chandler Engineering Co. (US)	Signed two contracts to supply consistometers and spare parts for World Bank-supported Zhongyuan Oilfield Development Project. \$133,570 and \$114,053 respectively. 2/86.
EGG Chandler Engineering Co. (US)	Signed contract to supply constant rate agitator, pressure instruments, and curing cauldron and spare parts for World Bank-supported Zhongyuan Oilfield Development Project. \$77,312. 2/86.
EGG Chandler Engineering Co. (US)	Signed contract to supply linear caplastometer and check device for World Bank-supported Zhongyuan Oilfield Development Project. \$3,000. 2/86.
Hawk Industries (US)	Signed contract to supply casing external pressure test devices for World Bank-supported Zhongyuan Oilfield Development Project. \$385,013. 2/86.

Hydril Co. (US)	Signed contract to supply hydraulic driller upper and lower protectors for World Bank-supported Zhongyuan Oilfield Development Project. \$34,310. 2/86.
Long Star Grinding Co. (US)	Signed contract to supply screw gauges for World Bank-supported Zhongyuan Oilfield Development Project. \$21,954. 2/86.
Magcobar Division of Dressor Industries Co. (US)	Signed contract to supply 66 tonnes of mud processing agents for World Bank-supported Zhongyuan Oilfield Development Project. \$152,566. 2/86.
NL Industries, Inc. (US)	Signed contracts to supply slurry testing instruments for World Bank-supported Zhongyuan Oilfield Development Project. \$106,582. 2/86.
NL Industries Inc. and its subs. Shaffer Western Hemisphere, Inc. (US)	Signed contract to supply portable high-tension test devices and test cards for World Bank-supported Zhongyuan Oilfield Development Project. \$19,279. 2/86.
Nortonchristersen GmbH (W. Germany)	Signed contract to supply OD dampers and OD jars for World Bank-supported Zhongyuan Oilfield Development Project. \$419,089. 2/86.
Ruska International Export Co. (US)	Signed contract to supply physical property laboratory for World Bank-supported Zhongyuan Oilfield Development Project. \$1.2 million. 2/86.
Merex Texas Corp. and Fluor Ocean Services International, Inc. (US)	Received order to supply horizontal pumps and motors for Tieling-Dalian crude oil trunkline, with Fluor as project engineering manager. 4/86.
National Tank Co., subs. of Combustion Engineering Inc. (US)/Dalian Harbor	Awarded contract to supply three crude oil pipeline heaters. \$2 million. 4/86.
BIX Ltd. (UK)	Received order to supply oil and gas pipeline inspection crawlers. \$304,520 (£200,000). 4/10/86.
Far East-Levingston Shipbuilding Ltd., subs. of Keppel Shipyard Ltd. (Singapore)/China Offshore Platform Engineering Corp.	Signed agreement to provide technical consultancy services for offshore mobile drilling rigs. 4/17/86.
Pharmaceuticals	
Corning Glass Works (US) and Coutinho Glass Engineering GmbH (W. Germany)/CNTIC and Shaanxi	Awarded contract to provide engineering, equipment, and technical assistance to expand a Baoji pharmaceutical glass tubing plant, with Corning supplying glass-melting furnace and tubing line and Coutinho providing batch plant and ampule-making equipment. 5/86.
Upjohn Co. (US)/Shanghai Institute of Materia Medica	Signed agreement to screen and develop compounds from 10 Chinese herbal medicines. 7/31/86.
Ports	
NEC Corp. (Japan)/CNTIC	Concluded contract to develop computer system for port container terminals. 4/86.
Norcontrol Surveillance Systems (Norway)/Ministry of Communications and Port Authority of Qingdao	Awarded contract to supply radar-controlled shipping vessel traffic system. 6/6/86.
Walsh Enterprises International (US)/Chongqing Port	Concluded agreement to modernize port. 7/9/86.
Power Plants and Equipment	
General Electric Corp. (US)/CNTIC	Signed contract to supply power line carrier equipment for World Bank-supported Second Power Project. \$2.1 million. 2/24/86.

Soren T. Lyngso (Denmark) and Skoda (Czechoslovakia)	Received order to supply computer control systems for power station. 5/7/86.	Ramada International Inc. (US) and China Trade-Omni Development Center Ltd. (HK)/Guilin	Signed agreement to operate new hotel. 7/9/86.
Silcon Elektronik (Denmark)/China National Electronic Import/Export Corp.	LIC:Concluded agreement to produce back-up electric generators in Guangdong. 5/13/86.	Scientific Instruments	
Mitsubishi Corp. (Japan)/CNTIC	Signed contract to supply 500 KV power transformers for World Bank-supported Second Power Project. \$4.4 million. 5/15/86.	Western Japan Trading (Japan)/State Education Commission	Signed contract to supply X-ray diffractometer for World Bank-supported Second University Development Project. \$1.1 million. 4/10/86.
GIE SpA (Italy)/Dagang Thermal Power Plant, Hebei (Austria)	Signed contract to supply two 320,000 KW generating units. 5/24/86.	AgriDelta Holland (Netherlands)	Received order to supply two compartments with floor space of 5,000 meters that provide controlled atmosphere for scientific experiments. \$4.7 million (DG12 million). 4/17/86.
Ebasco Overseas Corp., part of ENSERCH Engineering & Construction (US)/Zhejiang Provincial Electric Power Bureau	Signed contract to provide consulting engineering services for Phase II of Beilungang Project. 5/30/86.	Fuji Electric Co. Ltd. (Japan)/Oriental Scientific Instruments Import/Export Corp., Beijing	Will provide pyrogenic sintering furnace for ceramics and vacuum hot press. \$539,471 (¥90 million). 5/86.
Belgian Nuclear Society (Belgium)/Chinese Nuclear Society	Signed agreement to promote exchanges and cooperation for peaceful use of science and nuclear technology. 5/31/86.	Hitachi Construction Machinery Co. Ltd. (Japan)/China National Metallurgical Products Corp.	Will supply two ultrasonic instruments with built-in microcomputers. 5/86.
Citone Co. Ltd. (Japan)/Yunnan	Signed two contracts to supply 23,256 insulators and 94 brand tires for World Bank-supported Lubuge Power Station Project. \$100,000. (¥155 million). 6/86.	Ferranti Metrology Systems (UK)/Huadong Optical Co.	Received order for coordinate measuring machine. \$152,260 (£100,000). 5/1/86.
Duimison Co. Ltd. (Australia)/Yunnan	Signed contract to supply spacer damper for World Bank-supported Lubuge Power Station Project. \$550,566 (A\$757,000). 6/86.	Varian Associates, Inc. (US)	Received order to supply X-ray image intensifier tube product line. 5/12/86.
Mitsubishi Corp. (Japan)/Yunnan	Signed contract to supply 500 KV electric power transformers and accessories, tools, and instruments for World Bank-supported Lubuge Power Station Project. \$5.6 million (¥938 million). 6/86.	SIRA (UK)/Remote Sensing Institute, Beijing	Received orders to supply optical measuring equipment for space program. 6/16/86.
Garrett GmbH (W. Germany), subs. of The Signal Companies, Inc. (US)/MACHIMPEX	Signed contract to supply three portable electric generators for seismic operations and medical surveys. 6/16/86.	Shipping	
Canadian International Project Managers Ltd., Lavalin International Ltd., SNC Inc., and Acres International Ltd. (Canada)	Will conduct one-year feasibility study for Three Gorges power complex. \$6.3 million (C\$8.7 million). 7/21/86.	Relcraft Marine and Armadillo Products Ltd. (UK)	Will design and produce 50 boats. \$3 million (£2 million). 4/10/86.
Printing Equipment, Publishing and Broadcasting		Pacific International Lines (Pte) Ltd. (Singapore)/SINOTRANS	Reached agreement to supply door-to-door multimodal service. 4/18/86.
ProServ TV (US)/CCTV	Concluded agreement to supply programming. 4/23/86.	Norcontrol Simulation (Norway)/China Resources and Jimei Navigation Institute, Xiamen	Signed contract to supply radar/navigation simulator. \$500,000. 5/15/86.
China Link Publishing Corp. (Canada)	Signed agreements to sell North American and Western European advertising in 5 technical journals. 5/15/86.	Nordenfeldske Shipping A/S (Norway)/COSCO	Reached agreement to develop ship management systems. 6/6/86.
Jardine Engineering International Ltd. (HK)/MACHIMPEX, Ministry of Culture, and National Library of China	Awarded order to supply book handling system. \$1.15 million (HK\$9 million). 7/86.	Telecommunications	
Property Development		Societa Anonima Di Elettrificazione (Italy)	Signed contract to supply two pylons for power line across Yangtze. 4/19/86.
NA (HK)/Industrial Development Corp. of Shaanxi Provincial Railway Bureau	Signed contract to construct and operate Xihua Hotel. 3/86.	Societa Anonima Di Elettrificazione (Italy)/Guangdong	Signed two contracts to design and supply pylons and materials for 500 KW powerline. 4/19/86.
NPL-International AB (Sweden)/Lianyungang, Jiangsu	Awarded contract to supply materials and supervise hotel construction. \$1.4 million (SK10 million). 4/8/86.	Muirhead Data Communications (US)/Xinhua News Agency	Received order for two electronic picture disks. 5/86.
Mitsui Construction Co. Ltd. (Japan)/Shanghai East Lake Joint Corp.	Will design and construct hotel. 5/86.	AT&T Co. and Philips Telecommunications B.V. (US-Dutch JV) and NKF Kabel B.V. (Netherlands)/Ministry of Posts and Telecommunications	Won two orders to supply optical communications systems for glass-fiber transmission network in Beijing and transmission line along Yangtze. \$6 million. 5/5/86.
China Products Northwest, Inc. (US)	Will coordinate restoration of Ming Dynasty Palace site. 5/14/86.	Nokia Corp. (Finland)/Daqing Oilfield	Awarded two contracts to supply digital telephone exchanges, digital transmission systems, and car telephone network exchange. 5/15/86.
Wilma International (Netherlands)/Shanghai	Awarded contracts to build hotel and apartment complex. 5/21/86.	NEC Corp. (Japan)	Commissioned to install microwave telephone link between Shanghai and Beijing. 5/21/86.
NA (Canada)/Huangshan Tourist Development Corp., Anhui	Signed contract to construct and operate Tiandu Hotel. 6/86.	Telettra SpA and Pirelli SpA. (Italy)/Fujian	Signed agreement to build optical fiber communications system. 5/25/86.
		Philips Telecommunicatie Industrie B.V. (Netherlands)	Finalizing project to install private automatic branch exchange and optical fiber factories. \$72,240. 6/86.
		ITT Corp. (US)/Guangdong Posts and Telecommunications Bureau	Signed memorandum to provide equipment and technological services for Zhuhai cable project. 6/19/86.

Magnavox Advanced Products and Systems Co. (US)/State Oceanography Bureau	Awarded contract to supply differential GPS navigation equipment including monitoring station and receivers. \$200,000. 7/8/86.
United Technologies Corp. and Essex Group Inc. (US)/Chengdu Cable Plant, Sichuan	Received order to supply digital telephone cable. \$18 million. 7/11/86.
Nikola Tesla (Yugoslavia)/Liaoning	Received order to install telephone exchanges. 7/11/86.

Textiles and Textile Plants and Equipment

(Australia)/Nanjing, Jiangsu	Signed agreement to build wool storehouse including structural components, equipment, and computer system. 5/24/86.
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Transportation and Transportation Equipment

Degussa AG (W. Germany)	Received order to supply two salt bath systems for heat treating truck crankshafts. 4/28/86.
(USSR)	Signed contract to supply 100 electric locomotives including training and technical support. 5/8/86.
Racal Avionics Inc. (US), subs. of Racal Electronics Plc (UK)	Received order for omnirange station and nondirectional beacons. 5/19/86.
Pratt & Whitney Canada Inc.	ASSEM: Signed agreement to supply engines for passenger transport aircraft. 6/8/86.
Flight Dynamics Inc. and Trans Technology International (US)/CATIC	Received orders to supply two guidance systems for Boeing aircraft. \$407,000. 6/5/86.
Dunlop International Projects Ltd. (UK)/CNCCC and Chaoyang Tire Factory, Guangzhou	Awarded contract to supply steel radial truck tire factory. \$26 million (£18 million). 6/11/86.
Kawasaki Heavy Industries Ltd. and Sumitomo Corp. (Japan)/Guangzhou-Shenzhen Railway Corp.	Reached agreement to provide technology and components for 10 railway coaches. \$1.2 million (¥200 million). 6/21/86.
Maunsell Consultants Asia (HK)/Ministry of Communication	Appointed consultants for construction of the Beijing-Tianjin Port highway. 7/8/86.
Daimler-Benz AG (W. Germany)/China North Industries Corp.	Received contract to transfer technology to produce 6,000-8,000 heavy-duty trucks annually. 7/3/86.
Civil Aviation Authority of Singapore/Shanghai Foreign Economic Relations and Trade Commission	Will manage Hongqiao Airport. 7/26/86.

Miscellaneous

Cambridge Instrument Ltd. (UK)/State Education Commission	Signed contract to supply engineering equipment for World Bank-supported Second University Development Project. \$1.3 million. 3/86.
(Italy)	Signed agreement to train Chinese personnel in Italy and donate language laboratory to Beijing University. 4/5/86.
(E. Germany)	Signed 10-year agreement for employment and language training of Chinese in GDR. 4/9/86.
Carl Schenck AG (W. Germany)/State Education Commission	Signed contract to provide educational equipment for World Bank-supported Second University Development Project. \$1.4 million. 4/21/86.
Hartshorn & Associates (US)	Signed agreement to promote Chinese products through the China Export Commodities Market Trade Exhibit. 5/12/86.
Panalpina Inc. (US)/SINOTRANS	Will act as forwarding agent for importing and exporting Chinese exhibition material. 6/86.

American Express International Inc., subs. of American Express Travel-Related Services Co. (US)/China International Travel Service (CITS)

Signed cooperation agreement to develop travel in China, with CITS providing inbound services to American Express customers and American Express assisting CITS in developing domestic and international travel business. 6/4/86.

A. T. Kearney, Inc. (US)/International Trade Research Institute of MOFERT

Signed memorandum of understanding to cooperate on management consulting services, market research, and economic studies. 6/30/86.

中外
贸易

JOINT VENTURES AND DIRECT INVESTMENT THROUGH JULY 31

Foreign Party/ Chinese Party	Arrangement/Value/ Date Reported
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Agricultural Commodities

Avian Farms International Inc. (US) and Chia Tai Livestock Co. Ltd. (Thailand)/Beijing Dafa Animal Products Co.	Established Beijing Poultry Breeding Co. Ltd. 25-year joint venture to breed chickens. (US:35%-T:28%-PRC:37%). 5/21/86.
Chia Tai Livestock Co. Ltd. (Thailand)/Beijing Dafa Animal Products Co.	Established Beijing Dafa Chia Tai Co. Ltd. 25-year equity joint venture to hatch and process 12-16 million chickens annually. 5/21/86.
State of Michigan (US)/Yangping, Sichuan	Signed contract to build dairy farm. \$6 million (US:40%-PRC:60%). 6/2/86.
NA (Japan)/Ministry of Agriculture, Animal Husbandry, and Fishery	Established 1.5-hectare vegetable and fruit farm in Beijing's Fengtai District. 6/13/86.

Agricultural Technology

Council of Forest Industries of British Columbia (Canada)/Shanghai Timber Supply Corp. and China National Native Produce & Animal By-products Import/Export Corp.	Will jointly build model farm. 6/86.
Continental Grain Co. (US)/CEROILS and Wuhan Feedstuffs Co.	Signed contract establishing Wuhan Hua Mei Feed Co. Ltd. joint venture to produce premix and concentrated feed and to set up pig farm. \$6 million. (US:50%-CEROILS:40%-WFC:10%). 7/86.
R. A. Lister Co. Ltd. (UK)/Changzhou Tractor Co., Jiangsu	Initiated contract to produce walking tractors. \$15.2 million (£10 million). (50-50). 7/21/86.

Chemicals and Chemical and Petrochemical Plants and Equipment

CP Co. (Australia)/Hangzhou Dongnan Chemical Plant	Signed contract establishing 16-year Yada Soap Co. Ltd. joint venture to produce soaps and detergents. \$4 million. (A:49%-PRC:51%). 3/86.
Sobue Clay Co. (Japan)/NA Dalian	Will establish joint talc production company. 5/21/86.
Polysar Ltd. (Canada)/MOFERT and Shanghai Gaoqiao Petrochemical Corp.	Will establish Shanghai Gaoqiao-Polysar Co. Ltd. joint venture to modernize synthetic rubber latex plant. (50-50). 6/5/86.
General Electric Plastics Business Group (US)/Beijing Municipal Chemical Industry Research Institute	Established service center. 7/2/86.
(US)	Established 10-year Sichuan-Lotus Plastics Industrial Co. joint venture to manufacture plastic tubing and polyvinyl chloride tubes. \$1.3 million. 7/11/86.
OS Co. (US)/Yunnan	Agreed to establish 300,000-600,000 TPY caustic soda plant. 7/14/86.

Construction Materials

- NA (HK)/Ningbo Signed joint venture agreement establishing Ningbo Municipal Granite Slab Co. Ltd. to expand granite production. \$2.14 million. 1/22/86.
- NA (UK), NA (Singapore)/NA (two Chinese companies) Established Huaying Cement Products Co. Ltd. joint venture to produce drain pipes. 2/2/86.
- Sommer-Allibert SA (France)/NA Shanghai Expected to sign contract finalizing vinyl flooring joint venture. (F:33.3%-PRC:66.7%). 5/26/86.

Consumer Goods

- International Hardros Co. (US)/Shanghai Universal Biological Technology Development Co. Shanghai-Hardros Co. Ltd. joint venture began producing dark glasses. 2/86.
- Donnay, Ets., SA (Belgium)/Beijing Negotiating joint venture to produce 750,000 tennis rackets annually. \$5.7 million (BF:260 million). (B:30%-PRC:70%). 6/28/86.
- Gwok Gei Trading Co. (HK)/Shanghai Stationery & Sporting Goods Import/Export Corp. and Qingpu County Fengxi Industrial Co. Established Shanghai ACE Luggage & Bags Co. joint venture to produce suitcases and bags. 7/14/86.
- OS Co. (US)/Yunnan Negotiating joint venture factory to produce 3-6 million pairs of artificial leather light shoes. \$1 million. 7/14/86.
- OS Co. (US)/Yunnan Negotiating joint venture to produce nylon-silk stockings. 7/14/86.
- Wa Jik Development (HK)/Shanghai Native Produce Import/Export Corp. Established United Timber Industrial Co. joint venture to produce furniture. 7/14/86.
- Pacific Dunlop (Australia)/Shanghai Signed joint venture agreement establishing footwear components factory. (A:45%-PRC:55%). 7/86.
- Pacific Dunlop (Australia)/Beijing Signed joint venture agreement establishing sock factory. (A:37%-PRC:63%). 7/86.

Electronics and Electrical Equipment

- B & F Sales Corp. (US)/Foshan Science and Technology Development Company and Ministry of Aeronautics Turbine Research Institute, Guangdong Established Fofei Data Acquisition & Control Ltd. joint venture to provide hardware repair, software design, and other data systems services. 5/29/86.
- Wearnes Technology Pte Ltd., subs. of Wearnes Brothers Ltd. (Singapore)/Lishan Microelectronics and Shenzhen Science and Industry Park Corp. Established Hua Sing Technology Co. Ltd. joint venture to produce floppy disk drives, integrated circuits, and printed circuit boards. \$2 million. (50-50). 6/86.
- Wearnes Technology Pte Ltd., subs. of Wearnes Brothers Ltd. (Singapore)/Lishan Microelectronics Will establish Hang Xing Technology software joint venture in Xian. \$100,000. (50-50). 6/86.
- Daikei Data Processing Co. (Japan)/Shenhan Electronics Technical Co., Shenzhen Established Daishin Data Processing Co. data base joint venture to file Japanese telephone data. \$220,000. (J:54.5%-PRC:45.5%). 7/4/86.

Electronics (Consumer)

- Kail Imhauser (W. Germany)/Jinggangshan Machinery Factory, Jiangxi Will jointly produce TV aerials. 5/28/86.

Engineering and Construction

- Shimizu Construction Co. (Japan)/Institute of Engineering Mechanics in Harbin, Heilongjiang Agreed to conduct joint studies on earthquakes. 7/26/86.

Finance

- National Australia Bank/Industrial and Commercial Bank of China Signed business cooperation agreement to encourage joint ventures and technological exchanges. 2/86.

- Nomura Securities Co. (Japan), Sumitomo Bank (Japan), Security Pacific Corp. (US) and Bank of East Asia (HK)/Bank of China Agreed to establish joint venture bank in Shenzhen. 5/20/86.

- Lazard Freres (France)/CITIC Established China Partners joint venture to promote Sino-foreign business ties. \$97,000 (FF:700,000). (50-50). 5/31/86.

Food Processing and Food Service

- Tokyo Maruichi Shoji Co. Ltd. and Sapporo Breweries Ltd. (Japan)/Xinqiao Hotel, Beijing Will cooperate to operate restaurants. \$3 million (¥500 million-Japan's investment). 5/86.
- Anuss Fleish (W. Germany) Established Hua An Fleisch GmbH joint venture to build slaughter house at Dachang, Hubei. 5/24/86.
- Farm (Guangdong Ice Cream) Ltd., subs. of Dairy Farm Co. (HK)/People's Foodstuff Factory of Guangzhou and International Food Corp. Ltd. Established Guangzhou Refrigerated Foods Ltd. 20-year joint venture to build a refrigerated foods plant to produce ice cream and other refrigerated foods. \$10 million (HK\$78 million). (HK:30%-PFF:50%-IFC:20%). 5/28/86.
- Beatrice China Ltd. (US)/CITIC Established BC Development Co. Ltd. 30-year joint venture to develop projects to produce and market foodstuffs and light industrial goods. 6/14/86.

Machine Tools and Machinery

- NA (US)/Beijing No. 1 Universal Machinery Plant Set up CP China Corp. to manufacture compressors. \$390,000. 2/5/86.
- Amico Trading Inc. (US)/Ningbo Hardware and Valve Plant and China Hardware and Mineral Products Import/Export Corp. Established Ningbo Hardware and Valve Corp. Ltd. 15-year joint venture at Xiaogang ETDZ to manufacture and market alloy steel valves and related tube parts. \$4.7 million (¥15 million). (US:30%-PRC:70%). 5/19/86.
- Briggs & Stratton Co. (US)/Chongqing Puling Machine Tool Co. Established Puling-Briggs and Stratton Engine Corp. 10-year joint venture to produce 10- and 16-HP multipurpose gasoline engines. \$5 million. (50-50). 6/23/86.

Medical Equipment and Devices

- Sino-US Medical and Health Protection Industry Co. (US)/Tianjin Sanitary Material Factory and Tianjin ITIC Signed 20-year joint venture contract establishing Tianjin Health Protection Products Co. Ltd. to produce gauze pieces. \$1.2 million. (US:25%-PRC:75%). 6/2/86.
- Pacific Biomedical Co. (UK)/Industrial Development Corp. of Guangzhou ETDZ, Guangdong Cardiovascular Institute, and Guangdong Provincial People's Hospital Signed agreement establishing Guangzhou Pacific Biomedical Products Co. joint venture to produce artificial heart valves. 6/7/86.
- Pigeon Toshi K.K. (Japan)/China National Export Commodity Base Construction Corp., Shanghai branch, and Shanghai Zhuqiao Industrial Corp. Established Shanghai-Pigeon Dental Material Co. joint venture to produce plastic teeth. 7/7/86.

Metals, Minerals, and Processing Technology

- Noranda Inc. (Canada)/Tianjin Non-Ferrous Metals Industrial Co. (East Germany) Agreed to conduct feasibility study on construction of joint venture 100,000 TPY copper smelter and refinery. 5/23/86.
- Signed agreement to promote economic cooperation in geology and extraction of mineral raw materials. 6/21/86.

Packaging Equipment

- (France) Established France-Chine-Emballage joint venture to promote trade in packaging techniques and industries. 7/2/86.

Petroleum, Natural Gas, and Related Equipment

NPC (Norway)/Guangzhou Shipping and Marine Engineering Designing Corp.

Established Guangzhou-NPC Marine Engineering Designing Co. to research and develop offshore petroleum and natural gas production facilities and design ships. 5/86.

Ports

Boskalis International Co. and Multiterminals International Co. (Netherlands)/Nantong Port Authority, Jiangsu

Signed agreement to conduct feasibility study to expand Nantong Port, Jiangsu. \$2.1 million (DG\$5.1 million). 7/7/86.

Power Plants and Equipment

FWT Corp. (US)/Heat Energy Engineering Department of Qinghua University and Jiangxi Boiler Plant

Are jointly developing second generation boiler. \$2.4 million. (US:33.3%-PRC:66.7%). 6/16/86.

Printing Equipment, Publishing, and Broadcasting

Morisawa Linotype Ltd. (Japan)/Beijing Municipality

Established joint venture to provide training and research center in photocomposition technology. 5/86.

McGraw-Hill Inc. (US)/Xinhua News Agency

Established joint venture to produce Chinese-language directory of major US companies. 5/20/86.

Prospect Publishing House (HK)/China Prospect Publishing House

Established Prospect Electronic-Phototypesetting Co. Ltd. joint venture to publish Chinese and foreign-language books and magazines. 7/5/86.

Business Week (US)/China Foreign Economic Relations and Trade Publishing House

Established joint venture to publish monthly Chinese-language business publication for China, with editorial material from *Business Week*, *Business Week International*, and *International Management* magazines. 7/15/86.

Property Development

A1-Raves Group Trading Co. (Kuwait)/CITIC and Polytechnologies Inc.

Signed contract to jointly build and manage Beijing Binhe Garden Villas housing for long-term foreign residents in Beijing. 6/2/86.

Gateway Development and Construction Corp. (US)/Tianjin Foreign Trade Corp.

Signed 20-year joint venture contract to construct international trade center. \$44 million. 6/21/86.

Japan Air Lines Development Co., subs. of Japan Air Lines/Jinjiang Holding Co., Shanghai

Will build and operate Hotel Nikko Longbai, with Japan supplying capital and construction costs and PRC supplying land. 6/24/86.

Wu Yi Engineering Co., Ltd. (HK)/Huaqiao Commercial Bank Ltd.

Signed joint venture contract to build Beijing Yanshan Hotel. 6/30/86.

Skanska Co. and SAS International Hotels of Scandinavian Airlines System (Sweden)/China International Exhibition Center, Beijing

Signed agreement to build SAS Hotel inside China International Exhibition Center. \$43.8 million. 7/14/86.

Scientific Instruments

GenRad Inc. and Beijing-Washington Co. (US)/China Electronics Import/Export Corp.

Opened technology service center for automatic testing equipment. 4/28/86.

Nicolet Instrument Co. (US)/INSTRIMPEX

Established Nicolet Service Center in Beijing to service spectrometers. 5/26/86.

Hitachi Ltd. (Japan)/INSTRIMPEX

Established Hitachi Atomic Absorption Spectrophotometer Service Center in Beijing to provide training, consulting, maintenance, and repair services for atomic absorption spectrophotometers. 5/29/86.

NA (US)/NA (two companies), Jiangsu

Signed contract to coproduce microscopes. 7/21/86.

Telecommunications

Lyon Cable Factory (France)

Will sign contract for second-phase construction of joint cable project. 5/86.

Digital Transmission Inc. (US)

Signed letter of intent establishing joint venture to develop and make digital switching and automatic call distributor equipment. \$3.6 million. (50-50). 6/5/86.

Howeton International (HK)/Xinguang Industrial Products Import/Export Corp. of Sichuan

Established Helios Industrial joint venture to set up telecommunications networks between Sichuan urban and rural areas in Sichuan. 6/30/86.

Textiles and Textile Plants and Equipment

Pacific Dunlop (Australia)/Beijing

Signed joint venture agreement establishing knitting factory. (A:40%-PRC:60%). 7/86.

Transportation and Transportation Equipment

Furness Shipping & Agency Co. NV and Mr. John Baeck (Belgium)/SINOTRANS, China National Chartering Corp., China Business Marine Corp., and China United Trading Corp.

Established China-Belgium Transportation Co. joint venture. \$219,188 (BF:10 million). (FSA:20%-JB:20%-SINOTRANS:20%-CNCC:20%-CBMC:10%-CUTC:10%). 5/16/86.

United Tire & Rubber Co. (Canada)/Tianjin Rubber Industrial Co.

Established joint venture to manufacture off-the-road tires in China. \$14 million. (US:20%-PRC:80%). 6/2/86.

Ford Motor Co. (US)/No. 2 Automotive Plant, Hubei

Negotiating joint venture to produce multi-purpose transit bus. 7/5/86.

Miscellaneous

Promineco (Belgium)/ECOTECH

Signed joint venture agreement for ECOTECH to function as Promineco's representative in China. 4/19/86.

Japan Times/Shanghai

Will establish Japan studies center at Fudan University library. \$300,000. (¥5 million). (J:40%-PRC:60%). 5/22/86.

Dyr Inc. (US-Japan joint venture)/China International Advertising Corp. and China United Trading Co.

Signed joint venture agreement establishing Dyr Advertising Co. Ltd. to provide strategy development, market assessment, distribution development studies, liaison work, media advertising, packaging design, and trade shows. 5/28/86.

Sanwa Technological Development Co. Ltd. (Japan)/Shenyang Enamel Plant

Concluded joint venture to produce stainless steel tabletops. \$7.9 million. 7/10/86.

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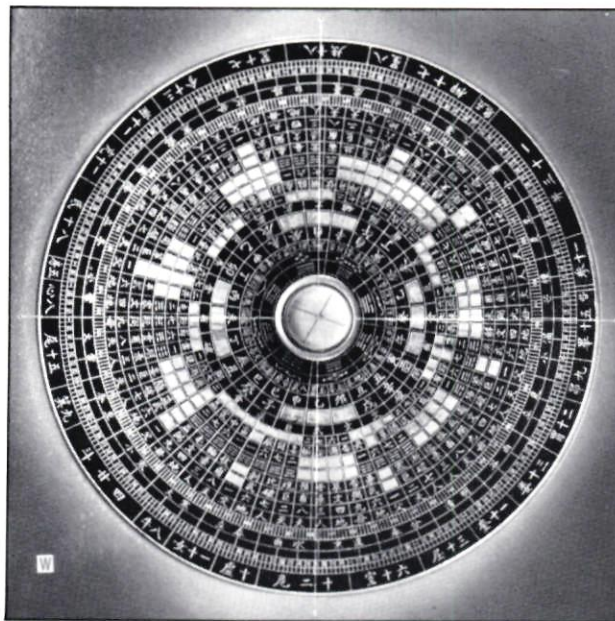
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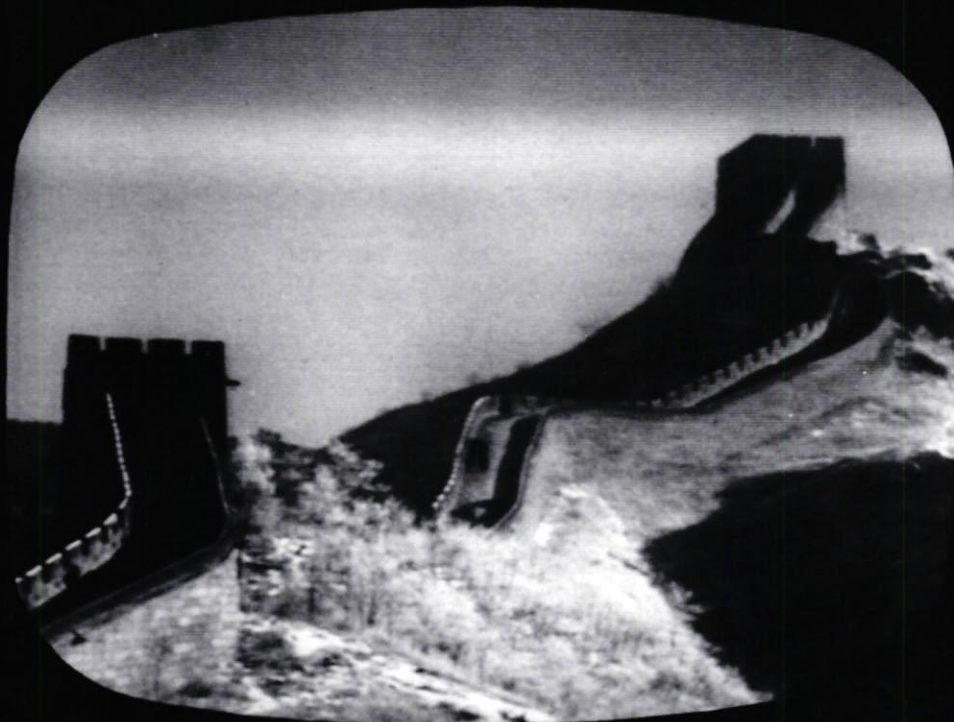
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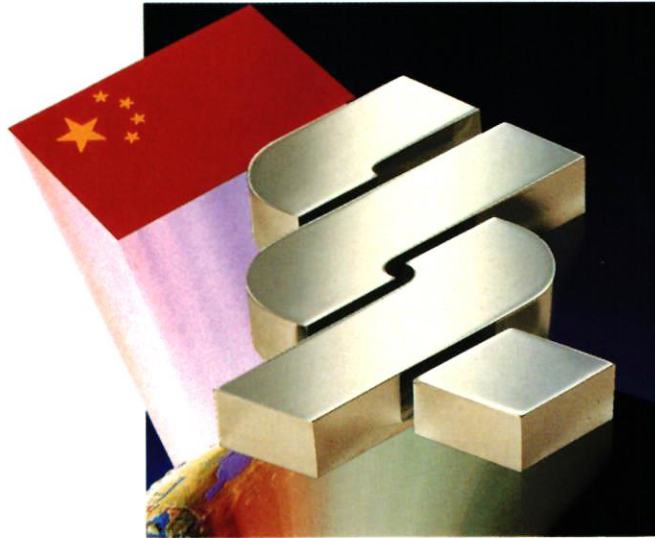
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