# The China Business Review

September–October 1990

**SPECIAL REPORT: Taiwan-China Commercial Relations**


## Crafting China's Image

AT ITT SHERATON LITTLE THINGS MEAN A LOT • AT ITT SHERATON LITTLE THINGS MEAN A LOT • AT ITT SHERATON LITTLE THINGS MEAN A LOT


Package design is a key component of market strategy. *Photo by Richard Wiseman*

# The China Business Review

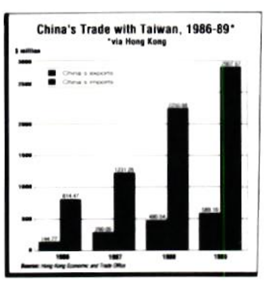
The magazine of the US–China Business Council

September–October 1990 Volume 17, Number 5



**Departments**






**Indirect trade across the Strait is booming** (p. 32).

**Foreign companies are increasingly willing to arbitrate in China** (p. 42).

# 摘要 Trends & Issues

## *Keeping Management Contracts*

Although 90 percent of China's factory management contracts—the cornerstone of China's enterprise reform—expire this year, most reportedly will be renewed. This move reflects limited commitment to the reform on the part of the leadership and continued management interest in the system despite its shortcomings.

The management contract system was designed to improve enterprise efficiency by allowing Chinese managers to manage State-owned enterprises without government and Party interference. The majority of contracts were signed in 1986 for three-year terms. However, problems endemic to China's hybrid economic system have limited the usefulness of the contract system and restricted the independence of decisionmaking in enterprises. For example, contract managers are generally unable to pass on the higher costs of inputs obtained on the free market, as output prices are usually controlled by the State.

Recently, contract managers have faced bureaucratic constraints as well. By the end of last year, one-fourth of them had to guarantee their employees some form of labor protection or welfare, regardless of worker productivity. The newly instituted double-guarantee system, in which enterprises agreeing to fill production quotas are guaranteed inputs at State prices, marks another setback for enterprise reform.

The government's decision to renew management contracts while concurrently attempting to recentralize control over economic decisionmaking reflects its sensitivity to the negative response dismantling the system would arouse at home and abroad. The fact that most contracts are being renewed for only one or two years reinforces the contention that the government's support of the program is more symbolic—as a gesture that reforms continue—than substantive. —DR

## *Census Time Again*

For only the fourth time since 1949, China conducted a nationwide census in July. Over seven million census workers went door-to-door to ask China's estimated 1.1 billion population detailed questions about employment, residence, marriage, and children.

Although preliminary results will not be available until October, new questions regarding such politically sensitive issues as unregistered births and illegal residency could provide much needed information for central government planners. One new question, for example, asked respondents where they lived five years ago and why they moved. By some estimates, China has a floating population of at least 50 million, comprised largely of workers left unemployed by the closing of rural enterprises. This migrant group has been of growing concern to central authorities worried about increased strains on urban infrastructures and perhaps most important, urban unrest.

The census may also reveal that the one-child policy has been disregarded outside large cities. In an apparent effort to track down unregistered births, interviewers were instructed to ask all female respondents if they had had a child during the past 18 months. Though authorities have pledged that the answers to such questions will be used strictly for demographic purposes, there is no way to gauge whether respondents imparted accurate information, nor how Beijing will use it. Given the issues raised and the current political tension within the leadership, however, Beijing may be hesitant to publicize some of the census' results. —VL

## *Increased Lending to China?*

At their July summit, leaders of the Group of Seven (G-7) industrialized nations appeared to agree to broaden the scope of the World Bank's China program to include projects that contribute to reform of the Chinese economy or promote environmental protection. US government officials, however, emphasize that the "basic human needs" (BHN) lending guidelines imposed after Tiananmen are to remain in place.

Yet on August 9 the World Bank's executive board approved the Mid-Yangtze Agricultural Development project—designed to finance research, extension, training, and tree-planting programs in Sichuan and Hubei provinces—with no apparent dissent from the United States. The project was justified as promoting poverty relief, the same rationale given for approval of a forestry loan in May. World Bank staff note that more projects falling outside the strict BHN definition will be submitted for approval in the coming months.

Though the G-7 statement issued at the July summit made clear that resumption of full-scale lending is not in the cards, maintaining G-7 unity may prove increasingly difficult in the months ahead. Japan announced at the summit that it will resume its $5.4 billion OECF aid program to China, and none of the G-7 seemed to object, saying Japan's bilateral programs are its own business. Japan's move may encourage other nations to consider large-scale resumption of multi- and bilateral lending programs in China, lest the Japanese gain too much influence. Few details have been released on the OECF program, however, and no other G-7 member has announced plans to move ahead with bilateral lending programs. —VL

# Short Takes

## *Extending Relations*

In moves to help ease its diplomatic isolation since Tiananmen, China in July restored diplomatic relations with Indonesia and established ties with Saudi Arabia. The Chinese government reportedly offered the Saudis a $710 million arms discount to help clinch the agreement. Renewed ties with Indonesia pave the way for formal relations with Singapore, which has long claimed it will be the last ASEAN state to establish political relations with China.

## *More China Sanctions?*

The US House of Representatives has passed a bill (HR4653) that would restrict presidential power to grant distribution licenses for China. If the Senate approves the bill, progress made over the past two years in liberalizing US high technology distribution to China will be largely wiped out.

## *New ExIm Loans*

The US Export-Import Bank in July approved two more loans, bringing the total number of China loans approved since June 1989 to five. An $11.8 million package will support US equipment sales for a new passenger terminal at Shanghai's international airport. The second loan, worth $5.1 million, will support Seattle-based Rayonnier C&C Ltd.'s sale of a plastic plant to Shanghai.

## *New Life for the Three Gorges?*

The Chinese leadership is apparently reconsidering the merits of the massive Three Gorges dam project, long a source of controversy. The renewed interest may signal that some advance work on the project is to be included in the 8th Five-Year Plan (1991-95) to ensure sound financial planning over the long term in case the project is ever approved. However, continued disagreement within the leadership and the ongoing budget crisis make it unlikely that significant investments will be made in the immediate future.

# Letter from the Editor

This issue of *The China Business Review* illustrates our desire to provide not only the "inside scoop" on hot topics in China business, but also to introduce issues not typically in the limelight. Our cover focus, for example, looks at the critical area of packaging in China, examining how Chinese companies package their products—and their images. Also detouring from mainstream coverage, our story on MOFERT's university system explains how foreign companies can get involved in the training of today's students—tomorrow's business leaders.

Our special report, on the other hand, features a topic everybody's talking about: the evolution and future of Taiwan-China commercial relations. We also go behind the scenes to examine the current draft of the much talked about copyright law, passage of which seems imminent after 10 years of haggling. Though dispute resolution in China is regularly covered by *The CBR*, in this issue we offer a special "insider's" view of China's revamped arbitration body, CIETAC. And finally, on the political front, we continue our coverage of the MFN debate in a letter from US-China Business Council President Roger Sullivan, who examines the impact of the controversy on future US-China relations. This topic is also touched upon in the interview with Shanghai Mayor Zhu Rongji, a rising star in the Chinese leadership.

* * * * *

On a personal note, this marks the first complete issue of the new staff of *The CBR*. Our goal is to continue providing the best, most thorough coverage of China business possible, but we need your help. Please let us know what you like about the magazine, or even what you don't. We value your insights as to how we can improve and hope you will share your ideas with us. On behalf of the staff, I look forward to working with you.

Best regards,

Pamela Baldinger

Pamela Baldinger

**The China Business Review**

1818 N Street, NW
Suite 500
Washington, DC 20036-5559

202/429-0340
Fax: 202/775-2476
Telex: 64517 NCUSCTUW



*The China Business Review* welcomes articles from outside contributors. Manuscripts submitted for consideration should be sent to the editor, *The China Business Review*, 1818 N St., NW, Suite 500, Washington, DC 20036-5559. The China Business Forum retains all rights to articles and artwork published in *The China Business Review*. Articles or artwork published in *The China Business Review* may be reprinted in non-Council publications or reproduced only with the written permission of the China Business Forum.

*The China Business Review*, ISSN No. 0163-7169, is published bimonthly by the China Business Forum, 1818 N St., NW, Washington, DC, 20036-5559, USA (Tel: 202/429-0340), a nonprofit organization incorporated under the laws of Delaware. Second class postage paid at Washington, DC, and additional mailing offices. Postmaster, please send address changes to *The China Business Review*, 1818 N Street, NW, Suite 500, Washington, DC 20036-5559, USA. Articles in *The CBR* do not reflect Forum policy, unless indicated. *The CBR* is grateful to I-Chuan Chen for the calligraphy used for the magazine's departments.

# *Letter from the President*

*The debate over MFN renewal for China has taken many twists and turns over the past several months, but the lines of battle now appear clearly drawn. The way in which the ultimate fight is conducted, however, will have important implications for the future of US-China commercial relations.*

**Roger W. Sullivan**

Despite the lack of coverage by the mass media, the battle to renew most favored nation (MFN) trading status for China is not over. Rather, it continues to simmer, fueled by domestic politics and both parties' frustration with the outside world's inability to move China toward reform and respect for human rights. The Democrats' election-year efforts to discredit the President's handling of China policy and pin "pro-China" labels on conservative Republicans supporting the President on MFN are exacerbating an already complex situation in Congress.

Some US-China Business Council members have commented to me that they dismiss such congressional posturing as irrelevant to "real-world" company concerns. But very "real" decisions will soon be made on Capitol Hill—and they may profoundly affect China business in the coming year and beyond.

### *Facing off over MFN*

The President's May 24 approval of China's MFN signalled the official call to arms for both sides of the MFN debate. By the start of the August recess two and one-half months later, the lines of battle in Congress appeared clearly drawn. Shortly before the break, both houses approved the "minitrade bill," which permits them to disapprove—by joint resolution—presidential waivers of the Jackson-Vanik amendment. (Such waivers free the President to extend MFN). The President is allowed, however, to veto any such vote of disapproval (*see The CBR*, May-June 1990, p.6).

*MFN debate will now clearly focus on terms of conditionality, not whether to disapprove the President's waiver.*

Passage of the minitrade bill appeared to set the parameters for the continuing MFN debate, giving Congress 60 days from September 5 (the effective date of the new legislation) to vote on a resolution of disapproval. However, the bill took so long to pass that in the interim other legislative initiatives were launched in both the House and Senate. These initiatives have diminished the relevance of the minitrade bill to the current MFN debate.

The new measures are broader in scope than a simple vote to approve or disapprove MFN. Instead they seek either to impose new conditions on the granting of MFN next year or to strip China of MFN until it meets specified conditions relating to human rights. Thus, the battle over MFN will ultimately be fought over terms of conditionality—not over whether to disapprove the President's waiver. When Congress resumes in September, debate will clearly focus on what kind of conditions to impose.

### *Stringent—or moderate—conditions?*

Congress is currently considering two bills dealing with China's MFN. The Senate bill was introduced by majority leader George Mitchell (D-ME) and co-sponsored by 16 liberal Democrats and ultra-conservative Jesse Helms (R-NC). It would terminate China's MFN 90 days after passage unless the President certified that China had met a number of conditions, such as release of all political prisoners, end of religious persecution, etc. The President would be free to extend MFN only after these conditions had been satisfied. Since it is unrealistic to expect the Chinese to meet such specific requirements, the Mitchell bill in effect would cancel China's MFN for the foreseeable future.

If passed, the Mitchell bill would certainly be vetoed by the President. There is sufficient opposition even within the Democratic Party to suggest the bill may not even come to a vote. Indeed Mitchell may never have intended it to be more than a bargaining chip to strengthen the language of the Pease bill, which has already been approved in the House by the Ways and Means Committee.

The Pease bill allows MFN to remain in place this year, but imposes conditions similar to those listed in the Mitchell bill. These conditions must be met by China before MFN can be extended again in 1991. Unlike the Mitchell bill, however, Pease gives the President the right to waive the conditions set forth in the bill, making them "goals" rather than conditions. By asserting that MFN would contribute to significant progress in human rights in the future, the President would be able to extend MFN despite an unsatisfactory human rights climate in China—just as he has been able to waive the "requirement" that China allow free emigration under current legislation.

While this approach may seem like an acceptable compromise between the Mitchell bill and MFN with no conditions, the administration is concerned that with the Mitchell bill still on the table, the give and take of congressional bargaining is likely to produce a final version of Pease that is tougher than the original. White House officials have therefore indicated to Congress that the President would probably veto Pease.

### *De facto conditions*

What then, should we expect from all of this? The Pease bill in some form will probably be approved by Congress and then vetoed by the President. The veto will likely survive any override attempt mounted by Congress before it adjourns this autumn.

But even if the President's veto is sustained, does this mean that MFN will continue without conditions? Not exactly. Whether or not there are conditions written into the law, the political reality is that continuation of MFN for China is conditional on China's human rights behavior. Bitterness over Congress' inability to pass any of its China-related legislation this year will probably ensure an MFN-renewal battle again next year. It will also lower congressional tolerance of any new Chinese violations of human rights in the interim. If there should be a major public crackdown in China or reliable reporting of widespread arrests and executions at any time in the next year, Congress would very likely vote to remove MFN by a veto-proof majority.

### *China and Jackson-Vanik*

Council member companies frequently ask when we can finally put the MFN issue behind us. The answer hinges on both China and the Congress. If conditions in China begin to

*Whether or not there are conditions written into law, the political reality is that continuation of MFN for China is conditional on China's human rights behavior.*

improve or simply remain stable over the next year and congressional annoyance with the President begins to subside, the contentiousness over MFN should fade. Whether China will cooperate is anybody's guess. Congressional annoyance at the President may subside somewhat after the elections—but much depends on the White House's handling of the Pease bill. Another arm-twisting effort, like the veto fight over the Pelosi bill on Chinese students, will fuel more resentment.

In a somewhat bizarre twist, Iraq's invasion of Kuwait should strengthen the President's hand. China supported the UN Security Council Resolution on Kuwait and has given the administration new, more credible assurances on its cessation of missile sales to the Middle East. These moves help support the administration's position that despite the end of the Cold War, China is a player with whom we must remain engaged.

Another factor in China's favor is the growing appreciation—in Congress, the press, and the public at large—that the Jackson-Vanik amendment, which makes extension of MFN contingent on human rights conditions in communist countries only, is an anachronism. How do we justify applying a stricter standard to China, the Soviet Union, and Eastern Europe than we do to Iraq or South Africa? Most of Eastern Europe already has—or will soon be given—MFN. If the administration and Congress agree to extend MFN to the Soviet Union as well within the next year, there will be strong pressure in Congress to get rid of this double standard by repealing Jackson-Vanik. Again, however, Chinese behavior will be a critical determining factor. If China continues to abuse human rights, Jackson-Vanik might get a new lease on life.

# 我会活动 Council Activities

## A Capitol Presence

Continuing the Council's efforts to educate the government and public about China issues, Council President Roger W. Sullivan and Director of Research David Denny testified before Congress in June.

Sullivan testified before the House Ways and Means Committee's Subcommittee on Trade and the Senate Finance Committee's Subcommittee on International Trade on June 19 and 20, respectively. Discussions covered US-China trade relations, with debate focused on whether or not the United States should extend most favored nation (MFN) trading status to China.

Sullivan's testimony defended unconditional extension of MFN to China on both business and humanitarian grounds. He explained that imposing conditions on the extension of MFN would be tantamount to suspending it outright, since business could not count on China meeting conditions. "We need to look beyond this regime," said Sullivan, "keeping up the pressure for change but positioning ourselves to work effectively with a new, more flexible and reform-minded government when it emerges. This means preserving the structure of our relationship, of which MFN is the economic cornerstone." In addition to closing down a major avenue of US influence, argued Sullivan, the removal of MFN would result in job losses for Chinese workers, increased costs for many light industrial products in the United States, and major losses for US businesspeople.

David Denny testified on June 28 before the Joint Economic Committee's Subcommittee on National Security and Technology's annual hearing on the state of China's economy. Denny discussed China's foreign commercial relations since Tiananmen, recentralization, and the relationship between China's foreign economic relations and domestic economy. Denny noted that "The political unrest of 1989...was a political tragedy with serious—but far from devastating—economic consequences." Among the consequences he cited were tight controls on imports, reduction in foreign investment, domestic recentralization, and increased bureaucratic controls.

Council staff continue to meet with members of Congress and their staffs in the Council's ongoing effort to preserve China's MFN status.

**Chongqing Mayor Sun Tongchuan (left), Alan Chien of Abacus Group of America and Shao Wenguang of the Ministry of Foreign Affairs discuss US-China relations.**

## Board Welcomes Chinese Mayors

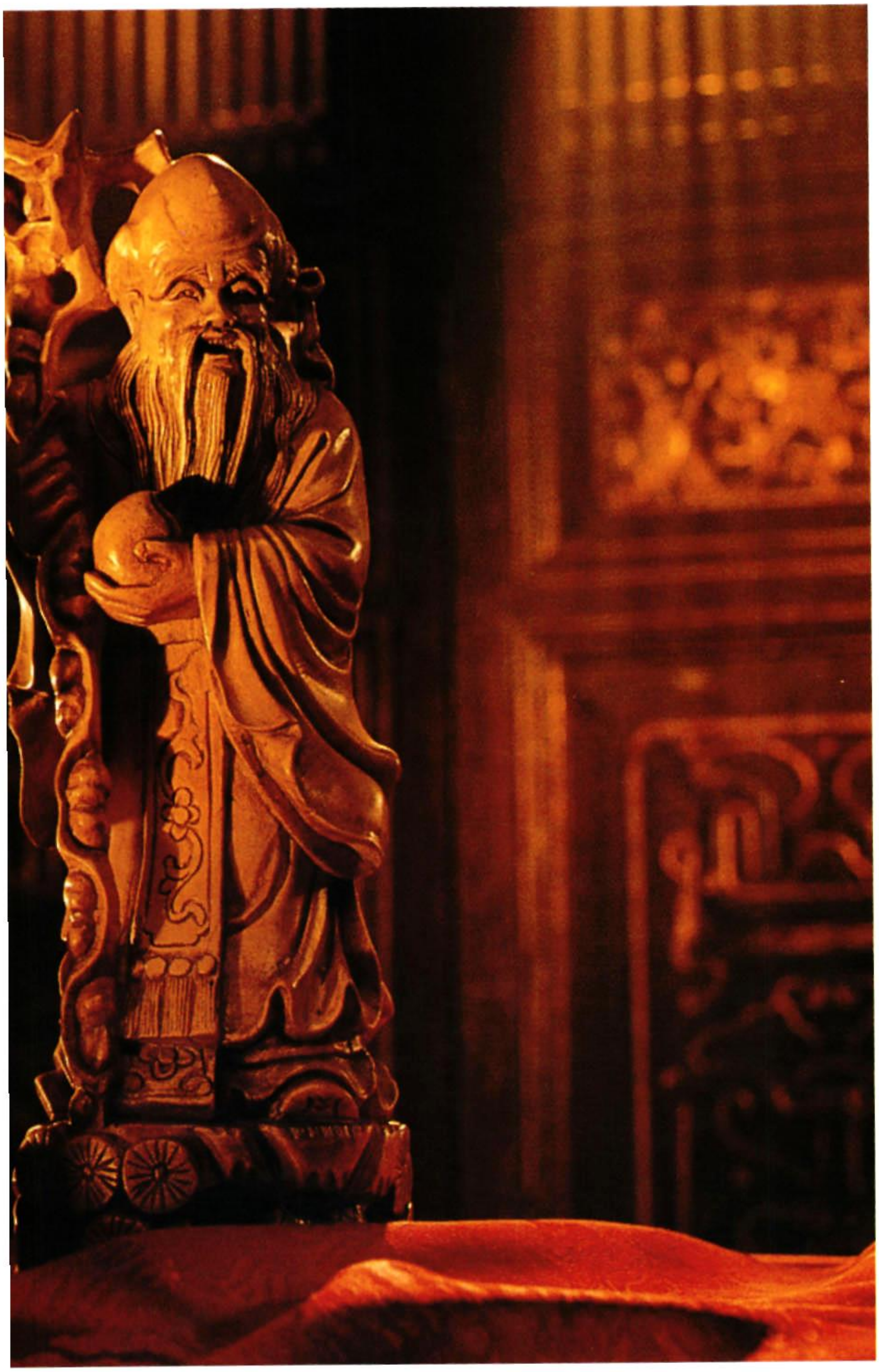
The Council's Board of Directors hosted a luncheon reception July 13 for a high-profile delegation of Chinese mayors who visited the United States to encourage investment and examine US urban management techniques. The delegation, led by Shanghai Mayor Zhu Rongji, met with members of the board to discuss issues in US-China business as well as specific company concerns.

Zhu and the mayors of five other cities—Wuhan, Chongqing, Taiyuan, Hefei, and Ningbo—shared opinions with the Council on such diverse subjects as the US trade deficit with China, resumption of normal US-China political and business ties, and China's investment climate (*see* p. 50). While in Washington the delegation also met with National Security Adviser Brent Scowcroft, Deputy Secretary of State Lawrence Eagleburger, and staff at the departments of Commerce and State—clearly revealing their underlying goal of revitalizing US-China relations.

## Council Briefs MOFERT Delegation on Export Controls

Washington representatives of member companies in the Export Controls Working Group attended a Council luncheon August 14 to meet a delegation from the Ministry of Foreign Economic Relations and Trade's (MOFERT) Technology Import/Export Department. Led by Liu Hu, deputy director of the department, the delegation visited the United States in mid-August to discuss with US officials and companies the status of US export control policy to China.

Following the luncheon, the delegation met with Council staff to discuss the Coordinating Committee for Multilateral Export Controls (COCOM), the US Trade and Development Program (TDP), and congressional legislation affecting export licenses for China. The delegation also met with member companies who helped train MOFERT trainees in US export controls policy under a TDP grant adminstered by the Council. The second of four groups of trainees scheduled to come under the grant completed their training in July.



# Where would a wise man stay in Beijing?

The answer lies with the gods. Prosperity ('Fu') hangs his splendid hat at the China World Hotel. And clever Fortune ('Lu') finds good value for his gold at the convenient Traders Hotel. While Longevity ('Shou') favours the perennially pleasing Shangri-La Hotel. But rest assured. Whichever of the three hotels you select to grace, the god of Wisdom will applaud your choice.

SHANGRI-LA INTERNATIONAL
BEIJING PROPERTIES, CHINA

00004, CHINA. TEL: (1) 505 2266. TLX: 211206 CWH CN. FAX: (1) 505 0828.
'HBBC CN. FAX: (1) 505 0818, (1) 505 0838 (TRADERS HOTEL).
'HINA. TEL: (1) 841 2211. TLX: 222322 SHABJ CN. FAX: (1) 841 8002/3/4.
59 5050 • **LOS ANGELES** (213) 417 3483 • **NEW YORK** (212) 768 3190

**HONG KONG • INDONESIA • MALAYSIA • PHILIPPINES (1991) • SINGAPORE • THAILAND**

CBR 3384

# Overwrapped and Underprotected

## *Shoddy packaging costs China billions each year*

**Henry H. Saenz**

An associate of mine once bought an expensive Chinese antique as a wedding present for friends in the United States. It came in a beautifully constructed, silk-lined wooden box. Taken with the beauty of the container, the couple thanked her for the box, thinking it was the gift—she had to convince them that the real gift was inside. Another traveler, however, recalls wanting to buy an equally expensive gift at a Friendship Store, only to be told that no box or packing material of any kind was available. The clerk wanted to wrap it in printed rice paper and tie it with a silk cord, a method offering no protection to the fragile item inside.

Far from unusual, these two extremes are indicative of the bewildering gamut of packaging in China today. Packaging materials range from poor-quality paper with little protective value to ornate wrappings costing far more than the packaged product. Design of packaging and labels also varies widely, often communicating a confused blend of Western and Chinese images that offer little clue to the product inside. Though these shortcomings and inconsistencies may sound relatively minor, product packaging—particularly for export goods—is a critical determinant of a good's market value and acceptability to consumers. According to Chinese sources, shoddy packaging in 1989 cost China some $3.7 billion in lost export earnings—up from $2 billion in 1987—largely because buyers refused to accept the poorly packaged goods.

These losses are leading to increased awareness of the need for better packaging in China, both in aesthetic and practical terms. The Chinese government has indicated through its national packaging organizations that improvements in packaging and design are a priority, but the amount of foreign exchange available for the purchase of foreign technology is still insufficient. However, the government's desire to spark consumer demand at home and abroad should help reinforce the importance of improving packaging—and could open the door to foreign firms able to assist with design and packaging expertise.

*Product packaging—particularly for export goods—is a critical determinant of a good's market value and acceptability to consumers.*

### *Lack of bureaucratic coordination*

Several Chinese organizations share overlapping responsibility for regulating and improving the packaging industry (*see* box). Although no one organization is embodied with overall decisionmaking responsibility, the China National Packaging Corp. (CNPC), responsible for formulating and implementing industry regulations, and the China National Packaging Import/Export Corp. (CHINAPACK), which imports and exports materials and equipment, are probably the most important players in the packaging field. The newly reopened State Packaging Improvement Office may also become a key player. Reinstituted specifically to help combat current quality problems, it will ostensibly be responsible for setting voluntary packaging standards and formulating strategies to improve design and packaging operations.

While packaging organizations at the national level have been responsible for some improvements, they lack the legal regime to implement far-reaching changes. There are no formal regulations requiring packaging to meet minimum strength or durability specifications, and labeling regulations common in many countries—such as truth in packaging laws—are rare in China. Individual ministries may issue guidelines, calling for warning labels on potentially dangerous chemical or pharmaceutical products, for example, but enforcement is irregular at best.

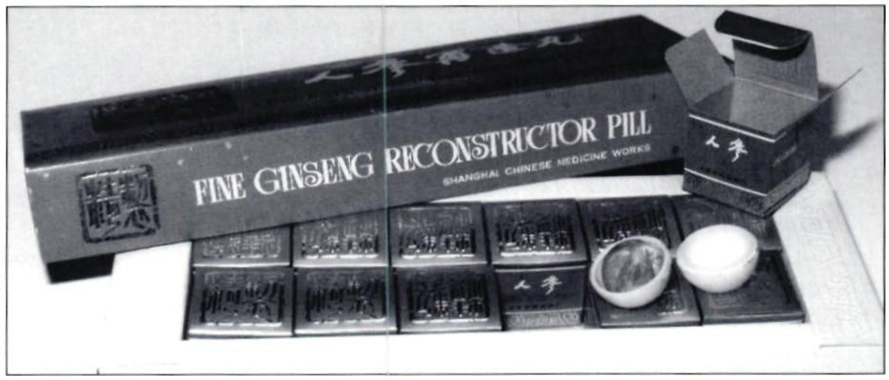
The Ministry of Health, for example, two years ago issued guidelines requiring labels to identify the producer, contents, and production and expiration dates of packaged foods. Enforcement plans, however, were not announced until recently, when the government declared it would begin inspecting food products in order to shut down producers of substandard or incorrectly labeled products. While China has far to go before labeling requirements truly protect the consumer, the State Council is reportedly considering

*Henry H. Saenz is president of Henry Saenz and Associates in Pittsburgh, PA. He participated in the Beijing International Packaging Technology '90 Conference and provided packaging consultation to several manufacturing companies in China. Associate Editor Vanessa Lide contributed to the research and preparation of this article.*

legislation to codify existing internal regulations—certainly a step in the right direction.

### *Unqualified decisionmakers*

Packaging has become an important consideration for consumer product acceptance in China only within the last 10-15 years. Previously, fewer goods were available, so Chinese consumers had few brands to choose from. Products also tended to be locally produced, requiring little more than paper wrapping to protect them during travel.




**Traditional Chinese medicine is often packaged to excess. Here, plastic containers as well as small individual boxes are used to protect each pill.**

## *Organization of China's Packaging Industry*

A number of Chinese organizations have overlapping responsibility for supervising the quality and production of packaging materials. Key organizations include:

**China National Packaging Corp. (CNPC)**
Founded in 1981 under the aegis of the Ministry of Materials, CNPC administers planning in China's packaging industry, developing annual and long-term packaging production strategies. CNPC includes 12 branches, 16 subsidiary companies, and 18 factories, several of which are joint ventures. CNPC is empowered to import advanced technology, and has concentrated its equipment purchases in four sectors: plastic processing, two-piece can production, glass bottling, and printing operations.

- *China Packaging Technology Association (CPTA)*

A non-governmental research and development body attached to CNPC, CPTA establishes long-term plans, sets standards, and organizes technology exchange programs. Companies can join CPTA for advice on improving technical aspects of packaging production.

- *China Packaging Science and Technology Research Institute*

Serving as the research arm of CNPC, this institute pursues research and development in packaging design and technologies, accumulates information and samples from international sources, and provides advice for managers and manufacturers.

**State Packaging Improvement Office**
Also under the Ministry of Materials, the improvement office was recently reopened after a three-year hiatus to better coordinate efforts to reduce losses stemming from poor-quality packaging. Housed alongside CNPC operations, the Improvement Office will be responsible for formulating overall strategies to be implemented by CNPC and other packaging organizations.

**China National Packaging Import/Export Corp. (CHINAPACK)**
Established in 1961 under the jurisdiction of the Ministry of Foreign Economic Relations and Trade (MOFERT), CHINAPACK coordinates improvements in packaging for Chinese export goods. CHINAPACK arranges for the import of packaging materials and machinery for factories involved in foreign trade and recently began to oversee the export of packaging materials and machinery. Chief imports and exports include: paper, plastic resins and films, glass and plastic containers, wooden boxes, machinery for producing containers and packaging materials, and food processing machinery. CHINAPACK administers 16 factories and 10 warehouses, and is affiliated with 200 factories that supply packaging materials.

**China National Light Industrial Products Import/Export Corp.**
Also under MOFERT, this corporation overlaps with CHINAPACK to some extent, for both are involved in importing paper. A subsidiary company, the China National Pulp and Paper Co., buys waste paper, paper pulp, and packaging material. It also established a joint venture to manufacture paper out of imported pulp.

**China National Packaging Machinery and Materials Corp.**
Under the jurisdiction of the Ministry of Light Industry, this corporation develops packaging machinery to be used in the packaging of light industrial goods.

**China International Packaging Technical Trading Co. (CIPTTC)**
A member of the China Council for the Promotion of International Trade, CIPTTC specializes in promoting technical advances in the packaging industry. CIPTTC cooperates with CNPC to offer information on technical aspects of packaging and guidance on domestic and overseas markets.

**China National Packaging and Food Machinery Corp.**
Established under the Ministry of Machine Building, this organization manufactures processing and packaging equipment and imports foreign technology for the food industry.

**Beijing International Packaging Center for Economic and Technical Cooperation**
Established in 1988 in coordination with the United Nations Industrial Development Organization (UNIDO), this center is designed to encourage foreign expertise in China's packaging sector. It also sends Chinese experts abroad for training in various aspects of packaging.

—VL

The situation now is greatly changed. With the increased production of consumer and export goods during the last decade, the importance of packaging has grown, along with the attention paid to this crucial final step in the production process. Marketing and design strategies are relatively new concepts to the Chinese, however, and there is little formal training available.

Whereas US factories commonly have an internal marketing group responsible for packaging and marketing strategies and hire specialists at each stage of the process, Chinese factories typically lack such resources. In general, a Chinese factory arranges for packaging to be produced in-house or by one of the national packaging organizations' production facilities. In either case, the factory manager, usually untrained in concepts of design and packaging—and, more important, in marketing practices—makes the ultimate decision on how the product is to be packaged.

*Labeling regulations common in many countries—such as truth in packaging laws—are rare in China.*

As a result, packaging in Chinese factories may not reflect optimal design choices or sound business decisions. In some cases, such as the use of aseptic packaging in food processing, the packaging can cost far more than the product itself; in the United States, packaging is typically 30 percent of the total product cost. Moreover, the cost of expensive, highly decorative packaging often cannot be passed along to the Chinese consumer, who generally has limited purchasing power.

### The production obstacle course

Once the factory manager has decided on packaging materials and design, obstacles to turning out quality packaging can be found at every step of the production process. Technical problems arise from lack of access to raw materials and state-of-the-art packaging machinery. Lack of government or buyer specifications on packaging lead to quality control and shipping difficulties. And communication gaps between producer, packager, and shipper increase the room for error.

The first step in producing high-

## The Aluminum Can Saga

In spite of setbacks over the past two years, aluminum can manufacturing remains an important and potentially profitable area of packaging in China. Although inadequate supplies of domestic aluminum, poor market conditions due to austerity and Tiananmen, and government restrictions have hindered production, many aluminum can producers remain cautiously optimistic about the future.

Before the proliferation of easy-open cans, also known as pop-top or two-piece cans, glass bottles were the only type of beverage packaging available in China. Though they still dominate the beverage market, glass bottles are heavy, easily broken, and costly to produce because they are made from soda ash, which must be imported. Bottles also require twice as much energy as cans to produce.

In the mid-1980s, China began to seek alternative forms of packaging for beverages, providing opportunities for foreign manufacturers. Aluminum cans, as well as plastic bottles and paper packaging, soon emerged to compete with the ubiquitous glass bottle. Among the first can companies in China was Guangzhou M.C. Packaging, a joint venture between M.C. Packaging (HK) Ltd., Ball Corp. (US), China National Packaging Import-Export Corp. (CHINAPACK), and three other Chinese companies. Construction of the M.C. Packaging plant began in September 1985, and 14 months later the venture began production, with annual capacity of over 250 million cans. The venture reported $3 million in profits in its first year of operation and received an award as the best new joint venture in China. Lured by this success, numerous other can manufacturers—both Chinese and foreign—entered the two-piece can industry. Continental Can Hong Kong, for example, formed its $10 million, 140 million can-per-year joint venture with the Foshan Can Factory of China National Packaging Corp. (CNPC) in June 1988.

From 1984-89 China imported 14 can production lines with total annual capacity of 2.34 billion cans. Actual annual production from 1985-88 was in the area of 1-1.5 billion cans, while average per capita consumption grew to about one can per person. Further growth, however, was constrained by China's inadequate domestic aluminum production.

### China clamps down

Nearly all of the aluminum used in two-piece can production had to be sourced outside China—and therefore purchased with foreign exchange. Since most cans were being produced for domestic sale—80 percent of domestic market sales were to State-owned enterprises—a foreign exchange drain resulted. In response, the State Planning Commission (SPC) in June 1988 prohibited the import of pop-top cans and issued a circular instructing local governments to stop approving new pop-top can projects. Can manufacturers producing entirely for export were exempt from these restrictions.

By October 1988 the restrictions were tightened because local authorities—particularly in Guangdong Province, where some 70 percent of can production is located—were ignoring them. The Ministry of Light Industry (MLI) stated that 1989 output of beverages in aluminum cans should be reduced to 25 percent of 1987 output. Ten months later, the government took further measures to limit aluminum can production, banning canned beverages from all State functions and banquets, doubling tariffs on aluminum and other imported can inputs, and announcing plans to impose a tax on canned drink consumption.

These restrictions, compounded by the tightening of credit and collapse of tourism after Tiananmen, caused aluminum can sales to plummet. Many manufacturers, including quality packaging is obtaining quality raw materials. In China, however, high-quality paper suitable for printing packaging materials and labels is often unavailable. The use of recycled paper pulp, though economically and environmentally desirable, leads to the production of less than optimum quality paper and cardboard. As a result, boxes for packaging televisions and other electronic equipment are often not strong enough to protect the contents, causing high shipping damage rates. And printing on such paper is often difficult, even with the best of printing equipment.

Even when packaging need only be functional and not decorative, the quality of the raw materials used is of great importance. For example, one joint venture producing ceramic washbasins reports higher losses in China than in other countries because the wooden crates used for shipping often do not prevent the products from being chipped or cracked in transit.

*More cautious buying by Chinese manufacturers—and more careful attention to recommended operating procedures—would allow imported packaging equipment to have a greater impact on improving the quality of Chinese packaging.*

Inadequate or outdated equipment also contributes to the poor quality of Chinese packaging. Although significant purchases of foreign packaging technology have been made in the past decade, including corrugated box, welded can, glass and plastic bottle, and food processing machinery, much of the equipment imported by China is some 10-20 years behind Western standards. In addition, some imported packaging equipment is not evaluated carefully by Chinese buyers and may become obsolete before it can be utilized to its fullest potential—leaving the factories to pay dearly for their mistakes.

In other cases, poor maintenance or operational procedures can exacerbate packaging problems. In one

Guangzhou M.C. Packaging and Continental Can, were forced to scale back production to 20 percent of capacity or less.

In early 1990, however, the market rebounded. The Chinese government injected large amounts of capital into certain sectors of the food and beverage industries, increasing demand for aluminum cans. Tourism picked up, and the approach of the Asian Games provided incentive to replenish depleted inventories. But by spring, the government cracked down again. In May CNPC published new restrictions on two-piece cans. Under these rules, materials imported for can production are to be supplied under a quota system, and the import of cans and can production lines is strictly prohibited. No new two-piece can projects are to be approved, and existing projects will not be permitted to expand. In July the MLI issued another blow to the industry—a series of new policies mandating "strict control of the development of soda cans and foreign brand soft drinks."

### *Trying to cope*

Foreign companies have responded in various ways to the mixed signals from the government. Guangzhou M.C. Packaging has altered its original strategy by diversifying its range of products. To minimize reliance on two-piece can profits, M.C. developed a new type of plastic container and opened coating and printing lines for tinplate cans. The company is also looking to expand exports—currently only 10 percent of its sales—to prevent heavy reliance on domestic sales.

Other companies, however, such as Coca-Cola China Ltd. and Alcoa Asia Ltd., feel that no change in strategy is necessary. Although Coca-Cola now uses more returnable bottles, this was part of the company's original long-term plan, according to Managing Director R. Fenton-May. Bob Rice, manager of Asian business development for Alcoa, a major supplier of can sheet to the aluminum can industry, believes the future is unclear, but not necessarily negative. "China will not continue to pay foreign exchange for can sheet," he explains. "Its mills all want to make can sheet, but they have great difficulty producing it. Therefore, only those can makers able to balance their foreign exchange and buy can sheet will continue to prosper."

Despite China's current emphasis on the production of glass bottles—which hold more than a 90 percent share of the beverage market—aluminum cans are ultimately more efficient. Although cans cost eight times as much as their contents to produce and bottles only cost three and one-half times as much, if breakage, transport, handling, and recycling costs are considered, the aluminum can is actually much cheaper. In addition, the profit margin on canned beverages is over 100 percent. People pay ¥3 for a can of Pepsi and only ¥0.70 for a bottle, largely because cans are perceived as foreign luxury goods. Consequently, it would be more practical for China to find alternative sources of aluminum than an alternative form of packaging.

One possible solution to the shortage of Chinese aluminum would be for China to recycle more cans domestically. However, China currently lacks the necessary technology to efficiently remelt cans into aluminum ingot and even exports some of its used cans to Japan. Alcoa is trying to convince China of the benefits of recycling, and has at least one person in China promoting an organized recycling effort. Says Rice, "Recycling *is* the future of the aluminum can."

Although growth will not be as high as can manufacturers predicted a few years ago, the future of the industry is not totally bleak. However, the on-again, off-again nature of the aluminum can industry is leading manufacturers to explore other areas of packaging. The aluminum can will thus face increasing competition from other modes of packaging in the future, but is unlikely to fizzle out completely.

—Eliza Rosenbluth

Chinese factory, for example, outmoded plastic-molding equipment was improperly operated, resulting in burrs of excess plastic on the factory's output of cosmetic cases. A large number of the molded compact cases had to be burnished to remove the defects, adding an extra step to the production process. More cautious buying by Chinese manufacturers—and more careful attention to recommended operating procedures—would allow imported packaging equipment to have a greater impact on improving the quality of Chinese packaging.

### *Falling short on quality control*

Once packages are produced, they are often unable to meet quality control standards for exports. Many consumer goods are in fact shipped to Hong Kong to be repackaged before being sent on to other destinations. But even the short trip from China to Hong Kong has its risks, as goods are shipped via open-air flatbed trucks or rail cars, which expose the packaging—and the contents—to rain, mildew, insects, and other potentially harmful elements.

Quality control problems in exports also arise because foreign buyers fail to articulate clearly their packaging requirements. Foreign buyers frequently do not specify or monitor how products are to be packaged, leaving the Chinese factory free to choose the cheapest or most readily available packing material. One US importer of Chinese steel recounts rejecting shipments of wire cables and chains because they arrived rusted and tangled after being shipped on poorly constructed wooden spools. The spools broke in transit, and roughly 25 percent of the shipment arrived damaged. In another case, the same manufacturer found that although box sizes were specified to allow steel rods to fit diagonally across the box, the rods arrived bent and unusable because the shippers insisted on inserting them straight.

### *Design: More than just a pretty picture*

Mechanical problems aside, the packaging sector in China faces the tremendous dilemma of not fully understanding its purpose—or its potential. To Western manufacturers, a package must be designed to match form and function; it must protect the product as well as convey an accurate image and description of what it is and why the consumer should purchase it. But since there is little or no market research conducted in China, Chinese factories often have little understanding of the markets for their products. Thus, there is often no consideration of which images or design concepts will sell products effectively.

For the most part, the current trend in Chinese packaging is toward the most ornate and decorative. Thus, an ordinary bar of soap will often be wrapped in many layers of expensive paper, with the wrapping costing more than the soap itself. Medicines are often packaged in individual compartments in a brightly wrapped box, with little or no information on contents or dosage. The packaging gives the appearance of fine chocolates, a misleading and potentially dangerous design choice.

In large part, such confusing or impractical packaging stems from lack of training in packaging design. Courses in industrial design or training institutes for designers, standard in the United States, are virtually unknown in China. Many who work in China's packaging industry are skilled graphic artists, but lack basic design concepts and strategies. Much of China's packaging reflects at-

## *Capturing the Chinese Market*

*S.C. Johnson & Son, Inc. a multinational producer of consumer and industrial products, has a joint venture in China producing hair and skin care products and aerosol insecticides. C.G. Rogalske, director of operations for Shanghai Johnson Ltd., discussed packaging strategies for the China market with CBR Associate Editor Vanessa Lide.*

**CBR:** *How does Shanghai Johnson Ltd. design packaging for the China market?*

**Rogalske:** High-quality graphics and packaging are necessary to portray the proper image of a high-quality product, to differentiate ourselves from products produced by our local competition. Although we strive to portray our connection with advanced technology from a famous multinational consumer products company, we always make sure our message is meaningful and beneficial to the local consumer. For example, we select labels and designs that are compatible with local consumer habits.

**CBR:** *Is your packaging produced in China?*

**Rogalske:** All our packaging is produced in China, but designs for new products are mostly done outside of China. Artwork for labels and cans is developed in cooperation with our advertising agencies in Hong Kong. Color separations are prepared elsewhere, but the actual printing of labels and cans is done in Shanghai.

Sometimes we have to import packaging components until a qualified local supplier can be identified. For instance, we helped a local State-owned company import blow-molding machines to produce the high-quality bottles we need. We also import form/fill/seal machines, foil wrapping machines, and silk-screening equipment for internal use. Basically, when the quality or quantity of local packaging materials has been insufficient or foreign exchange unavailable for these purchases, we've had to import such items as plastic resins, tin-plate, and film materials for our suppliers.

**CBR:** *Do you encounter many packaging problems?*

**Rogalske:** Packaging problems make up a significant part of my frustration factor with China. Obtaining consistently high-quality packaging components is a never-ending problem. Corrugated paper products, for example, are made of recycled materials, resulting in cartons of very limited strength. The stresses of Chinese road and rail transportation or damp, cold warehousing tend to damage them easily. Designing plastic bottles that will pass standard drop tests is another real challenge. But the quality of the packaging reflects upon the quality of the products inside—so we are committed to using the best packaging we can find.

Voice of American Business in China

美中贸易

ple, comes wrapped in shiny black paper printed with bold stripes. In the West, a black wrapper would never be used to sell a product associated with cleanliness. Similarly, packaging of numerous products—from soap to cookies—is adorned with red roses to impart a feeling of elegance and class, despite the fact that the imagery—and these qualities—have nothing to do with the products inside.

### *Seeking Western expertise*

A few Chinese packaging organizations are well aware of the need for better design concepts and training.


**Aseptic packaging, particularly for juice products, is increasingly popular in China. The bold graphics on the sample at the left clearly identify the contents of the package. The contents of the package on the right, which contains soy milk, can only be determined from the written description.**


**Good package design must heed cultural nuances. This package for cookies is adorned with imagery befitting a royal tea-party, though tea and cookies are not usually consumed together in China.**

CHINAPACK, for example, has begun to send its designers abroad for training, in the hope of adapting Western packaging and design practices to China's own artistic heritage. In May, six Chinese representatives from CHINAPACK came to the United States to visit a number of design facilities, including the Art Institute of Pittsburgh, the Heinz Corp., and a local beer bottling plant. The United Nations Development Programme (UNDP) is scheduling a similar mission from China in September 1990.

Other activities include a training program established by the China Packaging Technology Association and the French Packaging Association. While this program, which enables Chinese designers to study design techniques in France for one year, will expose the designers to a variety of perspectives, on-site training in China by foreign experts will have a much greater impact on instilling concepts of design and marketing.

In addition to beefing up training programs, the Chinese have sought to improve their packaging design and production abilities by holding international trade shows and inviting foreign experts to give seminars. Three upcoming international exhibitions point to the increasing importance and visibility of the sector. In September, the International Papermaking, Printing, and Packaging Technical Exhibition in Tianjin will feature paper packaging technologies. The October International Pharmaceutical and Drug Packaging Machinery Exhibition in Shanghai is scheduled to showcase drug packaging machinery from Switzerland, Japan, Britain, Germany, Italy, Canada, and the United States. And the International Food Processing Machinery Exhibition, also in Shanghai in October, will include exhibitions on canned food, beverage, baked goods, and meat processing equipment from around the world.

*A package must be designed to match form and function; it must protect the product as well as convey an accurate image and description of what it is and why the consumer should purchase it.*

International conferences are also conducted fairly frequently to acquaint Chinese designers and packagers with international standards. UNDP and the Friends of China Research Foundation, for example, sponsored the Beijing International Seminar on Packaging Technology '90 last January. Foreign experts from Europe and the United States gave presentations on packaging for food and light industrial projects to the audience of over 100 Chinese participants. The foreign experts also visited factories in Beijing, Shanghai, and Guangzhou for on-site inspection and consultation.

### *Opportunities for foreign companies*

International conferences and trade shows, although helpful in initiating contacts, are not enough to significantly improve China's performance in the packaging sector. This will require increased investment in modern technology, involving significant purchases from abroad.

A number of joint ventures and licensing agreements have already been established to produce paper and packaging for many Chinese products, particularly in the food and beverage industry (*see* box), which has been a leading purchaser of foreign packaging equipment and technology. But while China spent over $100 million annually in the late 1980s to purchase foreign packaging equipment and materials, expenditures under the current austerity program are far lower, in the $20 million-per-year range. This level will probably remain constant for the near future, despite the fact that the demand for packaging is growing at a faster pace than China's economy; some 1.5 million people are currently employed by an estimated 67,000 enterprises in the packaging sector.

*China needs technical assistance from abroad to utilize existing packaging machinery to its full potential.*

Above all else, China needs technical assistance from abroad to utilize existing packaging machinery to its full potential. Though China has in recent years imported a great deal of printing machinery, for example, it now requires computer-aided design technologies and foreign design expertise to make full use of the complex seven- and eight-color printing processes. Similarly, though it has imported aseptic packaging technology for the food industry, China lacks the ability to make the glue that binds the laminated layers of the packages together. For foreign firms, the key to sucessful sales or licensing agreements lies in the ability to fill such gaps.

### *New packaging priorities*

Foreign companies may also be able to sell new technology to China in several priority fields. In May, the government announced new policies giving priority to packaging for

## *Sino-Foreign Packaging Deals*

*The following list is a representative sampling of business deals between Chinese and foreign companies in the packaging industry. It is not intended to be a complete list of such deals and details have not been independently verified by The CBR. Foreign companies appear in boldface.*

### *INVESTMENT*

**Sunly Co. Ltd. (HK)** and the Dalian Port Authority in November 1989 established the $2 million Dalian Haixing Packing Co. Ltd. to provide packaging services for bulk goods.

**Happy Continental Ltd. (HK)** in July 1989 established Tianjin Shizhou Plastic Packaging Products Co. Ltd., a 15-year, $800,000 joint venture with the Changxin Foreign Trade Co. (Tianjin) to produce plastic film-packing bags.

**Nippon Fruit (Japan)** and a Singapore company established a joint venture in November 1988 with the Jiangyin Construction Engineering Technology Bureau to produce bag-making machines.

**W. R. Grace & Co. (US)** agreed in October 1086 to set up in the Minhang Economic and Technical Development Zone (Shanghai) a $650,000 wholly foreign-owned enterprise, Grace China Ltd., to produce sealant for Chinese canned-food producers.

**M.C. Packaging Ltd. (HK)** in cooperation with the Guangzhou Beverage Industrial Co., the Guangzhou Economic and Technology Development Zone, and two other Guangzhou companies signed a 20-year, $27 million contract in 1985 to set up Guangzhou M.C. Packaging Ltd. to produce aluminum cans.

**Nan Tung Investment Co. Ltd., Nanguang Trading Co., and Beijing Macao Ltd. (Macao)** in cooperation with the Beijing Pastry & Food Industrial Co., Bank of China, and Beijing Trust & Investment Corp. formed the $3 million Beijing Food & Beverage Development Co. in 1984 to produce and market foodstuffs, import packaging machines and materials, and export local fruit beverages.

### *TRADE AND TECHNOLOGY TRANSFER*

**Cloeren Co. (US)** and Coextrusion Plastics Sheets Co. (Beijing) led a consortium in mid-1989 to supply $3.5 million in equipment for manufacturing barrier aseptic-packaging materials.

**Krones AG (FRG)**, Ministry of Light Industry, and TECHIMPORT signed a technology transfer licensing agreement in May 1988 to produce labeling machinery for the beverage industry.

**Tampeller Oy (Finland)** agreed in August 1988 to supply the Shanghai Xinhuo Pulp and Paper Mill complete cardboard production sets worth $23.75 million.

**Lansmont Corp. (US)** in February 1987 sold eight laboratory packaging test machines and associated computer-based control systems, total worth $650,000 to China North Industries Corp.

**Lile International Packing Co. (Sweden)** supplied a $14.5 million production line to Beijing Pulp Paper Factory in August 1987 to make liquid food packaging cartons.

**Tetra Pak International (Sweden)** in late 1984 signed a contract to supply the Beijing Pulp and Experimental Mill for a production line for aseptic packaging of liquid materials

**Inmont Corp**. and a subsidiary of **United Technologies (US)** signed an agreement to supply the Beijing Paint Factory with technology for the manufacture and application of flexographic and gravure inks for paper, film, and foil packaging in November 1984.

agricultural and export products, as well as to durable and daily consumer goods. The measures also call on Chinese enterprises to improve the overall quality of product packaging. This will require better communication between buyers and managers on what packaging is expected and better inspection measures to ensure quality.

The new measures may create increased foreign business opportunities in the following areas:

- **Packaging paper and machinery** To strengthen this weak link in the packaging industry, funds and materials are to be allocated to the development of kraft board, kraft paper sacks, and white board, as well as various kinds of packaging machinery. Also needed is technology to make reinforced corrugated cardboard, which will better protect consumer goods from shipping damages.
- **Glass packaging** Improving glass manufacturing and increasing the use of molded pallets during shipment are among CNPC's top priorities. Glass packaging is being encouraged for the beverage industry, where production of aluminum cans remains curtailed by import restrictions on costly raw materials (*see* box).
- **Laminated paper cans** Production licenses are to be issued to encourage the use of laminated paper products, particularly for juices and other liquids.
- **Decorative printing** Training and design assistance are needed to improve the quality of decorative printing for labels and packaging of export goods.

### *Striving to meet world standards*

Although plagued by serious conceptual and technical problems, the packaging industry in China is clearly of great importance to China's industrial progress. Virtually every product requires some form of packaging, and consumers at home and abroad are increasingly unwilling to accept poorly wrapped Chinese goods.

Significant foreign expenditures on training and equipment will be required by the Chinese government

*The government has accorded the packaging industry priority status. Foreign exchange—though limited in the austerity climate—will therefore continue to be allocated for necessary improvements.*

to bring the packaging industry up to world standards. The government has accorded the packaging industry priority status. Foreign exchange—though limited in the austerity climate—will therefore continue to be allocated for necessary improvements. For foreign firms able to provide the expertise and technology needed to fill existing gaps, there may well be increasing business opportunities ahead. 完

# Packaging an Image

*China's enterprises are struggling to adopt public relations to a socialist society*

**David A. Fyock**

In 1988, China was suffering from a serious hepatitis epidemic. As a result, the newly opened Chengdu Restaurant in Beijing faced a crisis—customers stopped coming for fear of catching the disease. But Wang Li came to the rescue.

Wang suggested that the restaurant set up a double disinfecting system and let customers watch the process at work. He also told the restaurant to supply medicinal soap and disposable paper towels by the restaurant's washbasins—a highly unusual practice in China, but ultimately successful. Customers began to return. The first day after the new system was implemented receipts stood at ¥600. They soared to ¥2,700 the second day and ¥3,000 the third. Wang Li became a local hero. He also went on to found China's first private public relations firm.

Though Wang's techniques may seem somewhat crude to foreigners bombarded daily by sophisticated public relations campaigns, they represent a major breakthrough in the development of public relations in China. The Chinese are recognizing the need to promote themselves—their products, their industry, and their country as a whole. Currently over 100,000 people work in the public relations field in China, but their understanding of image-building differs significantly from Western views.

### Bureaucratic reluctance

The fundamental role of public relations—to seek to better understand the public, anticipate its behavior and influence its attitudes and desires—makes it highly suspect in a communist society where individual preferences are frowned upon. Cadres in companies and government have for so long made exclusive claim to understanding—and controlling—public behavior that many of them view modern public relations as a threat to their traditional role.

*Bureaucratic suspicion, coupled with the inconsistencies of China's hybrid economy, have limited the applicability of sophisticated public relations techniques in China.*

This bureaucratic suspicion, coupled with the inconsistencies of China's hybrid economy, have limited the applicability of sophisticated public relations techniques in China. Companies dealing in the domestic economy, where operations are not profit-driven or dependent on consumer demand, tend to find little use for modern public relations strategies. Service companies and export-oriented enterprises, however, are keen to include public relations in their marketing strategies.

### Maintaining government relations

For domestic-oriented firms, public relations money and energy are primarily spent on receiving and entertaining government officials and the occasional media representative or foreign visitor. Whereas in the West public relations is used to both win customers and promote a product or corporate image, in China it has primarily been viewed as a means of preserving status within a bureaucracy. To this end, most public relations personnel in domestic-oriented State enterprises work in two limited capacities: in a liaison office coordinating media relations, or as public relations managers in charge of hosting bureaucrats.

Some enterprises however, have gone far beyond these traditional uses of public relations. The first organization to employ modern Western techniques was the White Swan Hotel in Guangzhou, which in 1983 became the first Chinese-managed hotel to open a public relations office. The combination of the hotel's quality service and unique foreign-trained staff boosted its image and ensured the White Swan extensive publicity—which resulted in more bookings, especially from foreign business travelers.

If the White Swan's success was not convincing enough, proof of the utility of public relations is now coming from the Chinese government itself. In working to improve China's image since June 1989 and ensure the success of the Asian Games, Chinese leaders have displayed adroit use of modern public relations techniques. The government has invited delegations of journalists to China and offered high-level interviews, allowing Barbara Walters to interview CCP General Secretary Jiang Zemin. Reportedly, the government is now debating hiring a US public relations agency to continue efforts to improve its image.

Chinese companies must similarly learn to use public relations to achieve corporate and marketing

*David A. Fyock is president of China Consultants Inc. in Pittsburgh, PA. Gao Hua of the* Public Relations Herald *and Duan Yan of the Chongqing Public Relations Association also contributed to this article.*

## Packaging Appeal

*Foreign public relations firms in China are involved in numerous activities to promote the products and companies of their clients. Associate Editor Dan Reardon recently spoke with Tony Tse, general manager of Ogilvy & Mather China, about Ogilvy & Mather's efforts to help foreign companies develop appropriate marketing schemes for China.*

**CBR**: *When did Ogilvy & Mather open its China office?*

**Tse**: Our first China office was opened in Beijing in 1986. We opened a second in Shanghai in 1988, and both work together with the base office in Hong Kong. The Chinese offices specialize in advertising for foreign companies and joint ventures, while public relations is handled out of Hong Kong.

**CBR**: *Who are your clients? What kinds of services do you provide them?*

**Tse**: We work for several major multinational companies that have operations in China or sell products and services to Chinese consumers. We also work with the Chinese government on a project-by-project basis on overseas publicity and promotion campaigns.

Ogily & Mather offers a number of services in China to our multinational clients, such as media relations and monitoring, governmental and public affairs, employee relations, and consumer product marketing programs. In the last year, the most sought after service was help with packaging. We assist companies in everything from development of brand names and product concepts to design and illustration of packages. Good packaging is a fundamentally important part of a company's marketing efforts.

**CBR:** *What should companies take into consideration when packaging their products for the China market?*

**Tse:** Most international brands have a standardized label format and want to remain loyal to it when creating a Chinese label. Our clients don't want to see their brand appearing in different forms all over the world.

Though companies should retain a brand's international format, they must use Chinese in the brand name, product description, and usage directions, since over 99 percent of China's consumers can read only Chinese. Joint-venture brands manufactured in China face the added challenge of developing an imported look, as Chinese consumers are generally more confident of the quality of imported goods. The appearance of a product can be critical to its strength in the marketplace.

At Ogily & Mather, we've developed Chinese packaging for Maxwell House, Tang, Pond's, Seagram, Halls, and Johnson & Johnson.

**CBR:** *Is there potential for China's domestic public relations industry to grow?*

**Tse:** Unless the bureaucratic system changes to allow business decisions to override party directives, opportunities for more sophisticated and creative public relations programs will remain limited. Knowledge of modern public relations techniques and principles, however, is growing.

goals. Companies in the export sector or that work closely with foreigners (the tourism industry, for example) have generally been the first—and most successful—to employ modern public relations techniques.

### *Looking to foreigners*

Most individuals and companies committed to the development of public relations in China look to foreigners as role models on how to put public relations theory into corporate practice. Foreign joint ventures in particular have helped highlight the efficacy of good public relations, but joint venture hotels have perhaps been the most important role models and sources of training for China's fledging public relations practitioners.

The Holiday Inn Lido Hotel in Beijing, for example, has attracted much attention in the Chinese press for its employee training program. The Lido trains its Chinese managers in such areas as courtesy, service, cleanliness, and responsiveness to guest requests. Though such training may be standard in hotels elsewhere, it was novel in China. The resulting publicity turned the hotel into a public relations model for the Chinese.

The Sheraton Great Wall Hotel also set an important public relations example for China. Its public relations staff redirected former President Reagan's itinerary to include his farewell banquet in their hotel, rather than in the Great Hall of the People. By associating the hotel with the President, the hotel gained the reputation as the place for Americans to stay in Beijing. The advantages of being associated with power and prestige were not lost on the Chinese.

Joint venture hotel managers have also been active in promoting the cities in which their hotels are located. The manager of the Holiday Inn's Yangzi Jiang Hotel in Chongqing, for example, has been using public relations to change Chongqing's image as a dingy, bombed-out wartime capital to a rapidly modernizing city serving as the commercial gateway to southwest China. As part of the city's 800th anniversary celebration, he arranged for a large symposium on modern metropolises to be held at his hotel, followed by a trade fair.

### *Promoting the promoters*

Although foreign joint ventures may have provided the spark that ignited interest in the public relations field, Chinese organizations—from the government level down—have been quick to catch on, creating a rash of public relations training and professional institutes in the last five years. Perhaps most significant, the National Education Commission is planning to include classes on public relations in the Eighth Five-Year Plan (1991-95), giving permission to more higher education institutes to set up such classes. Currently, there are some 300 colleges offering courses in public relations, with 20 colleges specializing in it.

Associations and research institutes for public relations professionals have also sprung up all over

China. There are currently over 70 associations that conduct seminars and conferences. Specialized journals—such as the *Public Relations Herald* printed in Qingdao—cater to some 45 public relations companies.

Corporations have also been set up to implement continuing education programs and raise awareness through seminars and conferences. In 1988, for example, The China Public Relations Corp. (CPRC) was established in Beijing, under the auspicies of the All China Association of Journalists. With support from the United Nations Development Program in China, the CPRC has conducted four tours to the United States and one to Thailand to acquaint Chinese public relations experts with advanced technology and new markets. CPRC has also conducted three major seminars, each attracting managers and public relations specialists from almost 400 enterprises and research institutes. Over 730 trainees have completed short-term courses at the Beijing Public Relations Institute, a CPRC organization.

Similarly, the China Public Relations Association, a national organization headquartered in Beijing, has established branch associations around the country. In Chongqing, for example, the association has a paying membership of over 200 enterprises that are kept up-to-date on public relations matters through newsletters and announcements.

Thus, knowledge of the public relations field is spreading, and through more formal channels than in the past. Some public relations practitioners without formal training, like Wang Li, have already become successful. Wang established his company after reading only one how-to book on the subject! His golden rule is: "Public relations is a means to serve enterprises, make them known to the public and thus enliven their productivity. And this should not be done with back-door skills." Wang's philosophy offers a good example of growing Chinese awareness of the potential of public relations.

### *Obstacles ahead*

Despite the increase in educational opportunities, public relations is still a very new field in China and practitioners are not required to have any formal public relations training. As a profession, public relations is gaining in popularity, as it is perceived to provide access to the world of international business. As the desirability of the field grows, the qualifications of the people wishing to work within it should grow accordingly—it has already attracted a talented group of young people. Whether or not they will be given the leeway to act is another story. As one participant at the Beijing '89 International Public Relations seminar stated, "All this talk about public relations and its importance won't mean a thing if we don't change our system. There is no way our managers will accept it." Uttered in May 1989, her words ring prophetic.

Public relations, like many other fields recently introduced to China, is on hold, stuck in the ideological struggle between reformist and conservative forces. Recent conservative efforts to recentralize control over the economy do not bode well for the development of public relations, which needs an open, market-oriented economy if it is to truly flourish. In the current atmosphere, therefore, government and enterprise officials will likely direct public relations efforts solely at boosting China's exports and image abroad.

# China's Long-Awaited Copyright Law

*Numerous problems may undermine the effectiveness of this landmark legislation*

**Peter A. Schloss**

Despite many fits and starts, China has made significant progress over the past decade in improving intellectual property protection. Perhaps the most glaring exception has been in the realm of copyrights, where China still lacks any legislated protection. But there may be change in sight—after more than 20 drafts in the past 10 years, China's Copyright Law (CCL) is likely to be voted upon this fall by the Standing Committee of the National People's Congress (NPC).

Absence of a copyright law has made it next to impossible for US companies to protect proprietary technical information provided through licensing agreements. Software vendors in particular, left largely unprotected under the 1984 Patent Law, face the threat of having their products pirated. Despite increased pressure from the US government, there have been substantial delays in promulgating the CCL—a clear indication of the divided opinion within China on the role of intellectual property protection (*see* box).

Internal opposition aside, foreign observers are generally euphoric that passage of the copyright law seems imminent. Nonetheless, a review of the current draft indicates that the euphoria may be premature. For although the CCL will solve many problems for foreign companies seeking to do business in China, it may create some as well.

Generally speaking, the CCL is vague and lacking in many areas. Totaling 55 articles, it extends copyright protection to literary, artistic, and scientific works, as well as to computer software (*see* box). Although the law will give companies—both foreign and domestic—much needed protection for their intellectual property, it is not yet sufficient to allow China to join such international intellectual property conventions as the Berne Convention for the Protection of Literary and Artistic Works (Berne) or the Universal Copyright Convention (UCC). Though some of the problems currently found in the draft might still be resolved through modifications to the law or the implementing regulations, passage of the latter could take up to two years following promulgation of the CCL.

*There have been substantial delays in promulgating the CCL—a clear indication of the divided opinion within China on the role of intellectual property protection.*

### *Unclear fundamentals*

Unlike earlier drafts, the CCL is now divided into eight chapters: General Principles, Ownership and Exercise of Copyrights, Rights Related to Copyrights, Term of Protection, Authorized Use of Special Rights, Limitation of Rights, Protection of Rights, and Supplementary Articles.

The general principles (articles 1-9) define which works may enjoy copyright protection in China and who is entitled to receive copyrights. Although on first glance the general principles seem to be compatible with Berne and the UCC, several key questions remain unanswered. Specifically, provisions involving the protection of foreign works in China and the alienability of moral and economic rights of an author are bound to cause problems.

Copyright protection is extended to foreigners in Article 2 of the CCL, providing their works are "first published" in China. Not only is this contrary to Berne and the UCC, which require both published and unpublished foreign works to be protected, but "first published" is never defined in terms of timing and scope. Although most countries follow articles 3(3) and 3(4) of Berne and define "first published" as within 30 days of the original date of publication, some interpret "first published" more strictly, covering only works first published in their own country. If China follows the stricter definition, as does Indonesia, the ability of foreign works to receive copyright protection in China will be greatly limited. Experience has proven that publication is both costly and burdensome for companies forced to publish simultaneously in several countries.

Despite assurances from Chinese

*Peter A. Schloss is general counsel of the IBM China/Hong Kong Corp. The views in this article are his own and do not necessarily reflect those of IBM.*

drafters that this omission is merely an oversight and should not be considered a major problem by foreign companies, the impact of a tighter definition could be substantial. Assume, for example that a US textbook publisher creates a literary work in the United States and seeks to have it protected under copyright law in both the United States and China. In the absence of a bilateral copyright agreement between the two countries or Chinese membership in Berne or the UCC, under a strict definition the textbook publisher may be forced to publish the work in both the United States and China on the same day. Moreover, publication in China might require large print runs. Although Berne and the UCC only mandate publications in quantities "sufficient to satisfy the reasonable demand of the public"—interpreted by most countries to mean one copy—China could require publication and distribution of the work nationwide.

Software developers might face a more difficult problem. In creating a software application, developers only publish the object code of their programs (the machine language) while refraining from publishing the source codes (the human language). Publication of the source code could disclose the basic structure and idea of the program to the public in a manner that is not necessarily protected under copyright. As the CCL appears today, a foreign software developer may be presented with the unenviable choice of either publishing his source code in China or leaving it unprotected.

### *Narrow derivative rights*

Another serious problem in Chapter 1 appears in Article 7. Similar to other copyright laws, Article 7 states that a copyright protects four separate rights. The first three rights are moral rights: the right to reproduce/publish a work and decide whether or not it should be made public; the right to demand acknowledgement of authorship; and the right to protect the integrity of a work against misrepresentation or tampering. The fourth right is economic in nature: the right to reproduce, perform, broadcast, exhibit, publish, cinematize, edit, translate, annotate, compile or otherwise use the work.

While these economic rights seem to be an exhaustive litany of the economic rights that comprise copyrights in other countries, completely missing from this list are distribution rights—the exclusive right to distribute one's work to the public—and derivative work rights.

A derivative work is defined in the United States as a work "based upon one or more pre-existing works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted." Although Chinese drafters point out that translation rights and rights to cinematize, edit, annotate, and compile are included in the CCL under the copyright owner's economic rights, these rights are much narrower than the derivative work rights granted in the United States and under Berne, articles 8-14. The lack of distribution and derivative work rights narrows the scope of activities considered infringements under the CCL, and may also prevent China from acceding to Berne or the UCC.

### *Extensive moral rights*

Article 7 may create additional problems for copyright owners by implying that economic rights may be

## Chapter 1: General Principles

### ARTICLE 2

Chinese citizens and legal persons shall enjoy the protection of their literary, artistic and scientific works whether or not they are published, and no matter where they are published.

Foreigners shall enjoy the protection of their works first published in China.

Foreigners will receive the protection of this Law for their other works published outside of China according to bilateral agreements signed between their country and China or from international conventions which they participate in (with China).

### ARTICLE 7

Copyright comprises the following rights:

1. The right to reproduce/publish a work, and the right to decide whether or not a work should be made public.

2. Complete authorized rights, i.e., the right of author identification, the right to sign or not sign one's name to a work and the right to demand acknowledgement of authorship of a work.

3. The right to protect the integrity of a work, i.e., to protect the work from misrepresentation or tampering.

4. Special use drafts—the right to reproduce, to perform, to broadcast, to exhibit, to publish, to cinematize (to make into movie or television programs), or to edit, to translate, to annotate, to compile or otherwise use the work.

Copyright holders may allow others to exercise the specialized use rights listed in Article 7 Part 4 and may receive a fee for allowing them to do so.

transferred by contract or waived in their entirety while moral rights may not. Although exceptions allowing for the transfer of both economic and moral rights may exist in the software protection regulations, the restriction in Article 7 nonetheless leaves room for an unwelcome situation.

For example, in a "work-for-hire" scenario, where an employer hires employees to create a work on his behalf, the employer could be prevented from enhancing the work since this is a moral right belonging exclusively to the author/employee(s) and cannot be contracted away. Under Berne and in many countries, however, the moral rights of the author/employee(s) either do not exist or are freely transferable to the employer in most work-for-hire situations.

### *Threatening commercial viability*

Further problems in work-for-hire situations arise in Chapter 2 of the CCL. Articles 11, 12, and 13 deal respectively with joint works—works created by two or more authors; pure works-for-hire—works created during the scope of employment; and commissioned works—works for hire created under contract between two or more parties who are not necessarily employer(s)/employee(s). As all of these situations require contracts between individuals and an employer or commissioning party, the ability of the author to freely contract away or waive all economic and moral rights becomes paramount. Since Article 7 seems to restrict this ability, the commercial viability of the created work is called into question.

In a commercial setting an employer must be able to freely exploit works created by his employees. At the same time, an employer must be able to prevent others from exploiting these works. Under the CCL, this is not possible, though Chinese drafters maintain that the software protection regulations will solve this problem by allowing both economic and moral rights to be contracted away. They also point out that Article 12 specifically permits other laws, regulations, or contracts to hold sway.

**Chapter 2: Ownership and Exercise of Copyrights**

**ARTICLE 12**

The copyright of a work created within employment or in the fulfillment of one's offcial duty will belong to the author except where otherwise stipulated in laws, regulations, or contracts; but the author's work unit, within the scope of its normal functions, may enjoy free use of the work without the author's consent. Within two years of the creation of a work the author may not allow a third party to use the work in the same way the author's work unit does without the consent of the work unit.

Other work-for-hire problems may be found in Article 12. For example, assume that a company establishes a venture in China to develop computer software and that there is no contract between the company and the employees it hires to write the software code. Once the author/employee(s) create the work, according to Article 12 the company has the

## *The Politics Behind the Law*

At last, the seemingly interminable copyright law drafting process appears to be drawing to an end. It has been an arduous, politically wrought task. For under the rubric of China's Copyright Law (CCL) debate, the Chinese have been struggling over questions that reach to the core of their society—namely, what role intellectual property should play in a developing country and how to reconcile the rights such protection grants individuals with the needs and desires of a socialist state. Though a final version has not yet been approved, recent drafts indicate that foreign companies will find the copyright law somewhat lacking as a legal document. But as a symbolic gesture, its significance can't be disputed. The law marks a victory not only for Chinese wishing to further integrate China into the global economy, but also for the individual in Chinese society. Despite the conservative mood of the leadership, China appears to have drawn up a law more Jeffersonian in concept than that of the United States.

### *Satisfying critics abroad . . .*

Proponents of a Chinese copyright law have come from many quarters—including the United States. Under the 1988 Omnibus Trade and Competitiveness Act, the US Trade Representative (USTR) is required to identify countries that violate internationally recognized standards for protecting intellectual property rights. Countries so designated under section "Special 301" of this legislation face possible trade sanctions by the United States. To avoid such a scenario, the Chinese have promised to improve their intellectual property protection regime, with adoption of a copyright law a key component of their pledge. The promise has so far prevented China from being named an egregious offender under Special 301, but it remains on a watch list. If China has not adopted an effective copyright law by early next year, the USTR may recommend sanctions under Special 301.

### *. . . and at home*

With the threat of US trade sanctions looming over CCL deliberations, debate has been conducted among three main camps, whose relative strengths have varied over the years. Within each of these broad groups various factions and subfactions have emerged, complicating attempts to define the parameters of the debate. Nevertheless, the key players may be loosely categorized into two groups opposing the law and one group supporting it.

Support for the CCL has come

right to commercially exploit the work for two years without first obtaining the consent of the author/employee(s). The author/employee(s) may not allow third parties to use the work without the consent of the company.

While this is generally in line with work-for-hire situations in other countries, problems arise at the end of the two-year period. The wording of Article 12 seems to imply that after the end of this period, the author/employee(s) will be free to exploit the work even if such exploitation is in direct competition with the company. If this is the case, the author/employee(s) could license—or even sell—all rights to the work to the company's competitors.

### *The extra-long arm of the law*

General principles aside, specific measures within the CCL are also bound to be considered negatively by foreign companies. Article 38, for example, limits copyright owners to issuing 10-year licenses. Article 40 further requires that standard contracts and fees for the licensing of copyrights be promulgated by China's National Copyright Administration. Foreign licensers, however, will generally argue that not only is 10 years too short, but that terms and conditions of contracts and licenses are best left to the discretion of the parties involved.

*Article 39 not only attempts to give Chinese law extraterritorial effect, but is contrary to international treaties and practices.*

Another issue that may cause consternation to legal scholars is the treatment afforded to the licensing of copyrights for Chinese works outside of China. According to Chinese drafters, Article 39 requires that the licensing of a copyright for use outside of China be licensed pursuant to Chinese legal procedures. This provision not only attempts to give Chinese law extraterritorial effect, but is contrary to international treaties and practices.

### *Broad personal privileges*

Other problems with the CCL are found in articles 42-44. Article 42 provides broad exceptions to the requirements of author's consent and third-party payment of usage fees. Under Article 42(1), for example, a work may be copied, adapted, translated, annotated, or compiled "for one's own use for personal study, research, or enjoyment." This "personal use" right is overly broad and may allow for the copying of virtually any copyrighted work, in any quantity, without the payment of license or royalty fees—so long as the individuals using the copyrighted work "enjoyed" what they were using. While Chinese drafters state that this is not the intent of the provision, they have failed to adopt any safeguards for the rights of copyright owners. Japan, in contrast, allows for a similar right provided such reproduction or adaptation does not unreasonably prejudice the interest of the copyright owner.

Along the same lines, Article 42(7) permits Chinese government agencies to copy anything they deem necessary to carry out their duties, regardless of the wishes of the copyright holder. This differs greatly from US copyright law, which requires at a minimum payment or compensation for such use.

Further problems may arise regarding the publishing and distribu-

---

primarily from the electronics and computer industries, as well as organizations with a vested interest in developing China's science and technology. They have argued that without copyright protection, foreign companies will not provide China access to vital advanced technology. This group appears poised to emerge victorious.

In opposition to the "modernizers" is a group consisting of various hardliners and certain individuals in the chemical, pharmaceutical, radio, television, film, and broadcasting industries. Opposed to the CCL in both concept and content, they believe that intellectual property protection hinders China's quest for socialist modernization, and have thus also spoken out against enhanced patent and trade-secret protection. This group's strength has diminished, however, as the debate has continued.

The power broker in the debate has been a group that in theory is not opposed to a copyright law, but believes that China is not yet ready to comply with the obligations such a law would present. They frequently cite Taiwan and South Korea as models for China's intellectual property development, claiming China should wait to adopt a copyright law since it is at best several years behind Taiwan and South Korea in its modernization efforts.

Comprised mostly of cadres from the ministries of culture and film, as well as some from the radio, television, and broadcasting industries, this group has successfully delayed promulgation of the CCL by joining ranks with the hardliners. For example, at the June session of the National People's Congress Standing Committee, the organ with primary responsibility for approving the law, this camp stalled debate by asking politically loaded—albeit relevant—questions.

Some of these questions dealt with practical matters, such as how broadcast and television organizations are to acquire the money needed for royalty payments. Others involved ideological issues, forcing the government to decide whether works that advocate the overthrow of the government, encourage the "six evils," or are pornographic, superstitious, or contrary to the four cardinal principles should be eligible for copyright protection.

Though the supporters of the CCL testified that these issues should be addressed by the Publications Law, which has not yet been enacted, it appears that they will be addressed in both the publications and copyright laws. These issues are therefore unlikely to prevent promulgation of the CCL in the long run, but they may prove divisive enough at the August-September meeting of the Standing Committee to once again delay adoption of the law. —PB tion of textbooks. Article 42(1) allows for "selected published works" to be "published and distributed in textbooks for compulsory education purposes." Although Berne provides developing countries with limited compulsory licenses, this provision is overly broad, appearing to legitimize the wholesale piracy of textbooks by Chinese educational authorities.

*Although the general principles seem to be compatible with Berne and the UCC, several key questions remain unanswered.*

### *An imperfect victory*

Promulgation of the CCL will be a milestone event in China's legal development. Not only will it represent a major victory for forces seeking to promote the rule of law in China's modernization drive, it will signify that China is not turning its back on the international community.

Nonetheless, the CCL is not without its flaws, and if adopted in its present form, many companies will be doubtful of its efficacy. American government and industry can still influence the process by encouraging the Chinese to modify the law and address specific issues in the software protection regulations and other implementing regulations. If the Chinese don't, the transfer of foreign technology and culture to China will continue to be limited. 完

## *China's Software Protection Regulations*

Perhaps one of the most closely watched issues in China's debate over promulgation of the Copyright Law is the scope of protection afforded to computer software. This issue is important not only to any foreign company wanting to market or embark on computer software development projects in China, but also to Chinese individuals and enterprises involved in modernizing the country's technological infrastructure. For without effective software protection regulations, China's technological development efforts will be greatly hindered and the country may irreversibly lose ground to the dragons of the Pacific Rim and India.

Currently, China's software protection regulations are under revision by the Legislative Affairs Bureau of the State Council. The regulations, which do not require approval by the National People's Congress (NPC) before becoming effective, could be promulgated by the State Council approximately two months after the NPC's Standing Committee adopts the Copyright Law.

Drafting of the regulations, a responsibility of the Ministry of Machines and Electronics Industry (MMEI), has been a closed process. The State Council has refused to solicit comments from foreign companies or governments on the draft, and is unlikely to do so before promulgation. Nonetheless, several American companies and trade organizations—including the American High Technology Forum of Beijing, an ad hoc group of approximately 50 US companies involved in the high-tech arena in China—have made their views known through seminars and position papers at both official and unofficial levels.

### *Many questions, few answers*

The software regulations detail the manner and method of computer software protection as mandated by Article 50 of the Copyright Law. To be effective, the regulations should include provisions protecting object codes, source codes, and application programs, regardless of the type of medium on which they are stored; supporting material such as manuals and training documents; and expression in all parts of a program, including lines of code, detailed logic/SSO, visual displays, and interfaces, including their specifications. The regulations should also include a prohibition on reverse engineering, especially in cases where the results will be used for commercial purposes. However, little information has been released on whether these measures will in fact be adopted.

The Chinese have been more forthcoming in discussing the term of protection. Many foreign companies have urged the drafters to institute the same term of protection for computer programs as for other literary works—50 years plus the life of the author, or 50 years in work-for-hire situations. Citing France as a precedent, however, Chinese drafters appear to have rejected this recommendation in favor of a shorter term. But France, in accordance with the European Economic Community's (EEC) Software Directive, is very likely to modify its term of protection—25 years after first publication—to bring it into harmony with other EEC members, whose terms of protection are first-published plus 50 years.

The issue of computer program registration has also been closely watched. While little is known about the approach Chinese drafters have decided upon, it is clear that some type of registration system will be adopted. This system may require only portions of source codes to be deposited, perhaps using the cut-out method successfully instituted in the United States. The Chinese have not yet revealed whether registration will be voluntary or whether a statute of limitations will be imposed.

### *Realizing potential*

Chinese drafters maintain that problems in the Copyright Law are corrected in the software protection regulations. If this is in fact the case, in the likely event of discrepancies it is unclear whether the regulations will supersede the law or the law will take precedent, as in the United States.

Legal inconsistencies notwithstanding, issues such as registration and term of protection must be addressed satisfactorily in the software regulations before large-scale software development takes place in China. The interest is there—it is up to the drafters of the regulations to turn potential into reality.

—Peter Schloss

# KNOW CHINA THROUGH "CHINA DAILY"

North American Edition

You can't afford to miss CHINA DAILY.
Be informed.
Subscribe.

The only English-language newspaper out of China, brought to North America by satellite and distributed out of New York, every day except Sunday.

Complete coverage of what's going on in China, with daily business reports and an expanded Business Weekly every Monday.

President Ronald Reagan said of it in May 1986:

> "CHINA DAILY has made important contributions to mutual understanding."

And its readers said:

> "Excellent newspaper!"
>
> "As an executive involved in an international joint venture with a Chinese government agency, I find your newspaper absolutely indispensable in keeping up with the latest political, economic and business trends in China."
>
> "China Daily is a fine newspaper, written honestly and forthrightly. The information is concise and correct."
>
> "I like this newspaper! It is one of the most persuasive and enthusiastic publications on economic development anywhere in the world. It is written in lively and straightforward language."
>
> "Very informative, keeps me abreast of the current situation in China."

Let "CHINA DAILY" update you on latest Chinese policy and lay before you the vast opportunities of the Chinese market.

Take advantage of our SPECIAL RATE at 20% off regular price. Send your subscription today to:

**China Daily Distribution Corp.**
**15 Mercer St., Suite 401**
**New York, NY 10013**
**Tel: (212) 219-0130**

Enter my name for:

- ☐ a one-year subscription at $112.00
- ☐ six-month subscription at $62.40

☐ Payment enclosed ☐ Bill me

NAME ____________________

CO. ____________________

ADDR. ____________________

____________________

____________________

TEL. ____________________

(If you already have a subscription to CHINA DAILY, please give this to a friend.)

UP TO 20% OFF OUR REGULAR RATE!

BEAUTIFUL
DEAL.

Designed as the ultimate alternative to hotel accommodation for any executive planning to visit Hong Kong on business.

Parkview is located in a peaceful country park setting within 15 minutes of Central. It has a relaxing ambience unlike any hotel that makes it ideal for both work and leisure.

All the luxuriously appointed suites have a study or spacious work area. At Parkview executives' families can sample exceptional facilities, found not even in the best hotels, that make them feel right at home.

The unequalled amenities include a fully equipped business centre; billiard rooms; bar and seven stylish restaurants. Recreational facilities range from two outdoor pools, saunas, jacuzzis and an indoor Roman Bath, to tennis, squash, aerobics and a fully equipped gymnasium.

Make your reservation by phoning Richard Ellis on 521 1255; or Parkview direct on 812 3808. Fax: 812 1488 Telex: 70310 HK PVW. You'll discover everything about Parkview is good for business.

# PARKVIEW SUITES

The only luxury resort in the heart of Hong Kong.

# Silent Partners

*Since Tiananmen, Taiwan has been the bright spot in China's foreign economic relations*

**Mitchell A. Silk**

For nearly 40 years, Taiwan's government, headed by the Nationalist Party—or Kuomintang (KMT)—cautioned its citizens to beware of communist agents from the mainland and exhorted them to prepare for the day that Nationalist troops would return and reclaim the motherland. Today, there's no question that Taiwan has returned—but the troops aren't military and the motivation isn't political. The soldiers of propaganda have been replaced with businessmen—armed not with guns, but with cash.

Over the last few years, the economies of Taiwan and China have become increasingly integrated, thanks to political and economic developments on both sides of the Taiwan Strait. Indirect trade is expected to top $4 billion this year, and Taiwan investment in China stands at well over $1 billion. Some 540,000 Taiwan tourists—many of them actually on business scouting trips—flocked to China in 1989, and figures for the first half of 1990 are about 35 percent above the 1989 pace. Though technically the two sides remain enemies, unofficial commercial ties are flourishing.

Yet the very nature of these ties presents fundamental ideological problems to both regimes, which have downplayed their political differences to foster the profitable commercial relationship. Most Taiwan investors have been able to avoid political difficulties by keeping their heads down and their projects within the implicit parameters set by the Taiwan government. However, recent projects such as Formosa Plastics' proposed expansion in Xiamen—which would push Taiwan investment in China to a new plateau—have increased the sensitivity of the Taiwan government to the complex interrelationship between economics and politics in Taiwan-mainland commerce. It is too early to tell whether politics will be a stumbling block to further development of commercial relations or whether compromises will be made to enable them to reach their full potential.

*The Nationalist troops of Taiwan propaganda have been replaced with businessmen—armed not with guns, but with cash.*

### *Taiwan's motivation: Economic diplomacy . . .*

Taiwan President Lee Teng-hui's political ascendancy and consolidation of power have left a clear imprint on Taiwan's policy toward economic relations with the mainland. Sounding the death knell on Taiwan's "Three No" policy on the mainland—no negotiation, no compromise, no contact—Lee acknowledged in May the legitimacy of the communist regime in Beijing and proposed government-to-government talks. Three days later at his inauguration, he announced that he would seek to end the "Period of Mobilization for Suppression of the Communist Rebellion," during which Taiwan called on the mainland to abolish the four cardinal principles (which promote socialism and the Communist Party) and renounce the use of force against Taiwan.

This move clearly paved the way for Lee to open direct economic relations with the mainland. Lee, however, conditioned expanded ties on Beijing's promoting democratization and economic liberalization, renouncing the use of force against Taiwan, and refraining from isolating Taiwan in the international community. The likelihood of such conditions being met by Beijing are indeed remote; Beijing has already rejected government-to-government talks. The statements themselves, however, are of countless significance, since they mark the first time that the Nationalist government has indicated a willingness to accept peaceful coexistence with the communist regime.

Though Taipei's new policy is in part the result of business pressure, it also displays great flexibility and pragmatism in dealing with the mainland. This flexibility is not merely a reaction to pressure from the business sector, but a sophisticated method to achieve the KMT's long-stated goal of reuniting China. To the Nationalist government in Taiwan, businesspeople are effective, inexpensive emissaries who can spread the Taiwan "success story" throughout the mainland. Given the PRC's

*Mitchell A. Silk is an attorney in the New York office of the international law firm Hughes Hubbard & Reed. Actively involved in Taiwan and mainland investment matters, he also serves on the editorial board of the* Chinese Yearbook of International Law and Affairs *and is the general editor of* Taiwan and International Trade and Investment: Law and Practice *(forthcoming from Oxford University press in 1991).*

current political and economic problems, this is an opportune time to deploy economic diplomacy.

### . . . and business pressure

Political aspirations aside, the KMT has had good reason to ease the access of Taiwan traders and investors to the PRC. Skyrocketing wages and manufacturing costs coupled with fierce regional competition have forced Taiwan's labor-intensive industries to seek offshore sites of production to remain competitive. Lured by the common links of language and culture, the abundant supply of cheap labor, and preferential treatment by Chinese authorities, Taiwan investors are flocking to the mainland. Though direct trade and investment are still officially banned, the Taiwan government has basically turned a blind eye to the "mom and pop" operations that increasingly flout investment restrictions. It has also expanded the number of items that may be legally imported from the mainland (see list), eased physical access to the PRC, and begun developing a legal regime to regulate and protect Taiwan investment in the mainland.

*Though direct trade and investment are still officially banned, the Taiwan government has basically turned a blind eye to the "mom and pop" operations that increasingly flout investment restrictions.*

### Legalizing commercial activity

Taiwan first approved indirect commercial dealings with the PRC in 1988, permitting indirect import of 50 commodities (*see The CBR,* November-December 1988, p. 10). Since this tentative initial foray, Taiwan authorities have abandoned or altered a number of previous laws restricting commerce and relations across the Strait. For example, Taiwan has expended much energy in drafting the Mainland Relations Law, which will deal with entry and exit, marriage, inheritance, correspondence, communications, and business relations with the mainland. The Executive Yuan approved an initial draft late last year, but the fluid state of relations has required extensive revisions, which are presently pending.

Perhaps the most significant change in the business environment has been Taiwan's Ministry of Economic Affairs' (MOEA) efforts to formulate a new policy for economic relations with the mainland. In February, MOEA lifted the prohibition on market survey trips to the mainland by Taiwan businesspeople, allowed Taiwan businesses to attend trade exhibitions held in the mainland, and relaxed Taiwan's policy on the import of PRC cultural works, relics, and research materials. While these moves merely condoned transactions already taking place, they nevertheless underscore the Taiwan government's new attitude to contact with the mainland.

Taiwan authorities have also been busy planning and organizing a quasi-governmental organ, quite similar in nature and function to that of the Coordination Council for North American Affairs in Washington, DC, to conduct intermediary matters. The agency, to open this fall, is to handle document certification and notarization, facilitate economic and cultural exchange, provide judicial assistance and aid in the service of process, issue and ratify travel docu-

## PRC Commodities Approved for Indirect Import to Taiwan

### Approved in 1988

Aluminum ingot
Beef tallow (nonedible)
Calcined bauxite
Camellia oleifera
Camellia sinensis
Carborundum for emery sand
Cardamom
Castor oil (nonedible)
Chicken, duck, and goose down or feathers
China clay
Coal
Deer bone, tail, fetus, and veins
Diatomaceous earth
Eel fry
Electrolytic copper (unforged)
Feldspar
Flax and flax thread (raw)
Goat hair used in making writing or scrub brushes
Guang min xiang (saussurea radix)
Hog bristle
Horse hair (not carded or combed)
Hyascyamine semen
Jilin ginseng, angelica acutiloba, lycium barbarum, and dried–red dates
Kaolin
Leather
Magnetite
Natural rubber
Paraffin wax
Pig iron
Rabbit skin and fur
Ramie (raw)
Rare earth materials
Rattan and semi-finished rattan products
Raw cotton
Refractory mortars
Rosin, colophony
Scrap iron and steel
Seeds, fruit, and spores for planting
Sheep or lamb wool
Silicon carbide, magnesium oxide, and aluminum oxide
Silk (raw or waste)
Squirrel fur
Syenite (for ceramic use)
Synthetic and natural camphor
Talcum, talc
Tin ingot
Tung oil
Waste cotton
Wood pulp for paper making
Yellow phosphorous

### Approved in 1990

Alpha (99%)
Ammonium fluoride
Antimony (unforged)
Barium carbonate
Barium fluoride
Barium sulfate
Billet
Birch logs
Birch products
Boxwood logs
Boxwood products
Cassia bamboo leaf
Cedar logs
Cedar products (*machilus nanmu*)
Chinese larch logs
Cobaltic oxide
Coke
Dried black dates
Fluorite
Gemstones
Lead ingot
Manganese sulfate
Mint crystal
Monochloroacetic acid (99%)
Natural and artificial pearls
Nickel oxide
Oak logs
Oak products
Paulownia products
Pearlite colony
Potassium nitrate
Potassium permanganate
Red-bean fir products
Sesame
Shells
Silicon
Sodium nitrate
Tin oxide
Vermiculite
White teak logs
White teak products
Zircon sand

ments, and assist in dispute resolution, among other things. Another branch is to follow in Hong Kong. Taiwan would also like to establish offices in Shenzhen, Xiamen, Shanghai, Tianjin, Hankou, Xian, Shenyang, and other cities in the mainland, contingent on approval of the mainland government.

### *Sweetening the pot*

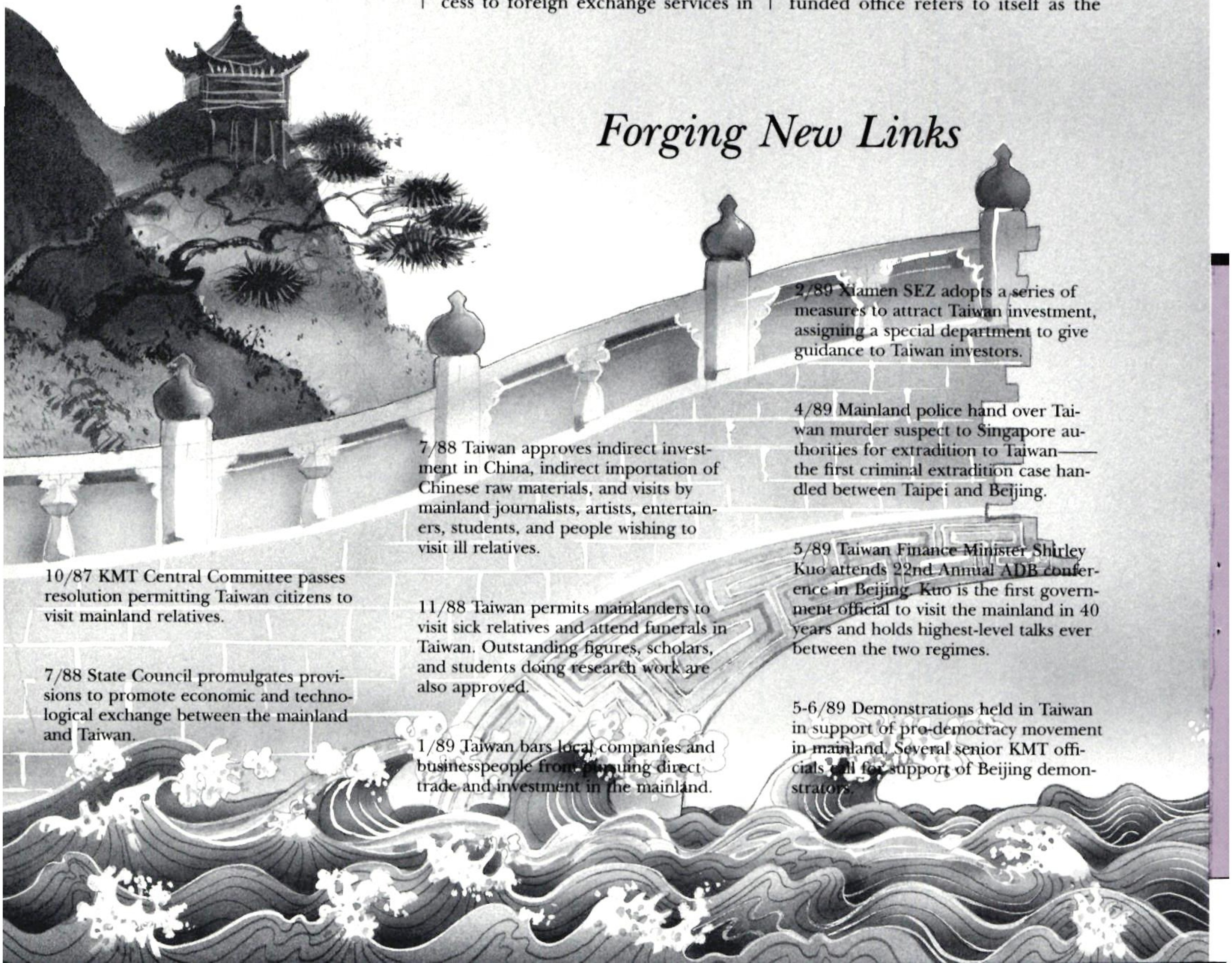
Mainland authorities—at both national and local levels—have also acted to ease access of Taiwan businesspeople to the PRC and assure them of the desirability of doing business there. In March, for example, Hainan Deputy Governor Bao Keming announced that Taiwan visitors no longer had to obtain visas prior to arriving in Hainan, but could receive 15-day business visas upon arrival to the island. This temporary visa, however, does not entitle entry into any other part of the mainland. But in May, Tang Shubei, deputy director of the State Council's Office of Taiwan Affairs, announced that Taiwan businesspeople could apply directly to the Office of Taiwan Affairs in the province, autonomous region, municipality, or Special Economic Zone (SEZ) they were visiting to obtain multiple-entry visas. These rules are more flexible than those applied to most foreigners, but are similar to rules in the SEZs for Hong Kong and Macao Chinese.

Other PRC inducements include the February announcement by the Bank of China (BOC) to accept New Taiwan dollars for exchange into foreign exchange certificates. Although trading occurred for over a year prior to the formal announcement, Taiwan visitors now have access to foreign exchange services in virtually every corner of China.

The China International Trust and Investment Corp., (CITIC), a semi-private company and a leading PRC business organization, has taken the lead at the industrial level to welcome Taiwan investors to China. CITIC recently opened an investment advisory arm in Hong Kong to counsel potential Taiwan traders and investors.

### *Mutual cooperation*

Perhaps more significant than the individual measures each side has taken—for whatever reasons—to promote the relationship, groups from both sides of the Strait have worked together to accommodate their increased economic contact. For example, non-governmental entities from both the mainland and Taiwan have set up offices in Hong Kong to counsel prospective businesspeople. Taiwan's privately funded office refers to itself as the



## *Forging New Links*

10/87 KMT Central Committee passes resolution permitting Taiwan citizens to visit mainland relatives.

7/88 State Council promulgates provisions to promote economic and technological exchange between the mainland and Taiwan.

7/88 Taiwan approves indirect investment in China, indirect importation of Chinese raw materials, and visits by mainland journalists, artists, entertainers, students, and people wishing to visit ill relatives.

11/88 Taiwan permits mainlanders to visit sick relatives and attend funerals in Taiwan. Outstanding figures, scholars, and students doing research work are also approved.

1/89 Taiwan bars local companies and businesspeople from pursuing direct trade and investment in the mainland.

2/89 Xiamen SEZ adopts a series of measures to attract Taiwan investment, assigning a special department to give guidance to Taiwan investors.

4/89 Mainland police hand over Taiwan murder suspect to Singapore authorities for extradition to Taiwan—the first criminal extradition case handled between Taipei and Beijing.

5/89 Taiwan Finance Minister Shirley Kuo attends 22nd Annual ADB conference in Beijing. Kuo is the first government official to visit the mainland in 40 years and holds highest-level talks ever between the two regimes.

5-6/89 Demonstrations held in Taiwan in support of pro-democracy movement in mainland. Several senior KMT officials call for support of Beijing demonstrators.

Coordination Council for Commercial Affairs across the Taiwan Strait, while the PRC's office is called the Coordination Council for Economic and Trade Affairs across the Taiwan Strait. Each office has a staff of about 30 people.

The two offices drafted an agreement in December 1989 setting forth the general terms of cooperation between them. Though they lack the authority to deal with official nominal matters, both will be able to provide numerous services relating to trade, investment, dispute resolution, and business trip logistics.

The two sides have also begun discussions on establishing direct air links. Currently, direct flights between Taiwan and the mainland are prohibited, so travelers must fly via a third destination, such as Hong Kong or Japan. Last April, however, an air service delegation representing five Taiwan airlines visited the mainland and was reportedly warmly received by CAAC, the mainland's aviation authority. It will likely take some time to resolve logistical and political problems, however, and estimates on when direct flights will be permitted vary from six months to five years.

### *Raw materials for Taiwan . . .*

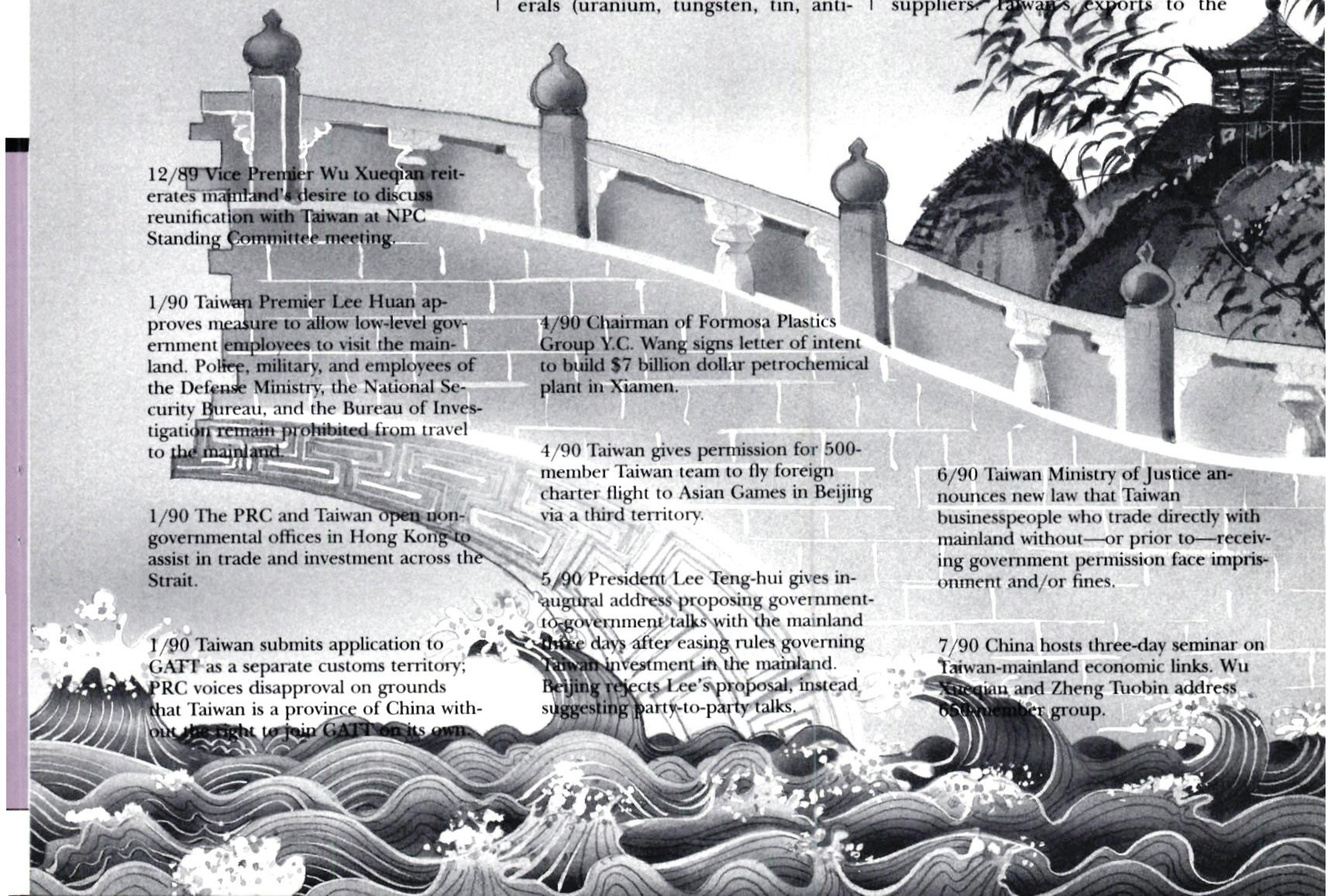
The lack of direct air and shipping links does not seem to have significantly hindered the development of trade between the two sides, however. Despite a lull immediately following Tiananmen, indirect trade between China and Taiwan grew some 30 percent in 1989, largely due to the complementary nature of their economies and levels of development (*see* graph).

Taiwan, while lacking in natural resources, possesses substantial light industrial technology. This competitive advantage has been lucrative for the island, as cloth, machinery, electronics, chemical fiber, and raw materials for chemical industries account for the PRC's chief imports from Taiwan.

The mainland, on the other hand, has abundant supplies of natural resources, raw materials, and cheap labor. Taiwan imports large amounts of coal, petroleum, cotton, and minerals (uranium, tungsten, tin, antimony and mercury) from China. Traditional Chinese medicinal herbs and animal and plant products used in Chinese art supplies—many of which can only be found in China—also constitute a significant portion of Taiwan's imports from the mainland.

Current trade patterns between Taiwan and the mainland reflect little risk for either side. While the statistics are subject to dispute, Taiwan's exports to the mainland account for 3-6 percent of total exports, while China's exports to Taiwan represent a much higher proportion—in the area of 6-17 percent. These figures represent approximately 3-4 percent of each side's GNP. The mainland stands more to lose should there be a disruption to the relationship, however, due to its larger foreign debt and smaller reserves of foreign exchange.

Taiwan also maintains a competitive edge in the composition of trade, importing raw materials and medicinal herbs from the mainland that could easily—albeit more expensively—be sourced elsewhere, although recent events in the Middle East could benefit mainland energy suppliers. Taiwan's exports to the



12/89 Vice Premier Wu Xueqian reiterates mainland's desire to discuss reunification with Taiwan at NPC Standing Committee meeting.

1/90 Taiwan Premier Lee Huan approves measure to allow low-level government employees to visit the mainland. Police, military, and employees of the Defense Ministry, the National Security Bureau, and the Bureau of Investigation remain prohibited from travel to the mainland.

1/90 The PRC and Taiwan open nongovernmental offices in Hong Kong to assist in trade and investment across the Strait.

1/90 Taiwan submits application to GATT as a separate customs territory; PRC voices disapproval on grounds that Taiwan is a province of China without the right to join GATT on its own.

4/90 Chairman of Formosa Plastics Group Y.C. Wang signs letter of intent to build $7 billion dollar petrochemical plant in Xiamen.

4/90 Taiwan gives permission for 500-member Taiwan team to fly foreign charter flight to Asian Games in Beijing via a third territory.

5/90 President Lee Teng-hui gives inaugural address proposing government-to-government talks with the mainland three days after easing rules governing Taiwan investment in the mainland. Beijing rejects Lee's proposal, instead suggesting party-to-party talks.

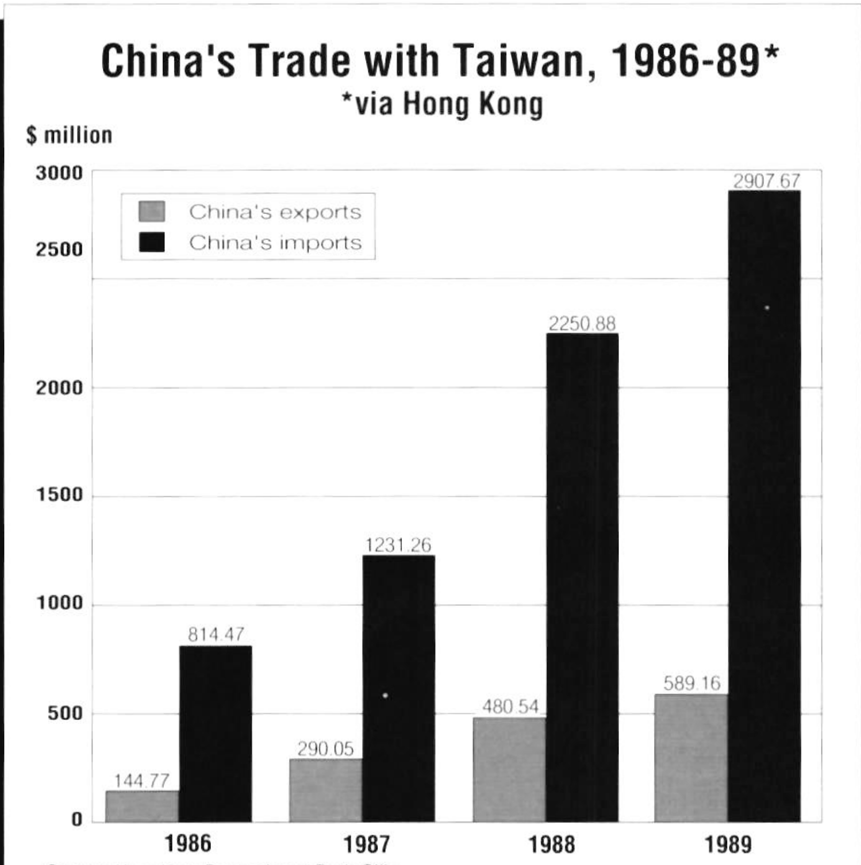
6/90 Taiwan Ministry of Justice announces new law that Taiwan businesspeople who trade directly with mainland without—or prior to—receiving government permission face imprisonment and/or fines.

7/90 China hosts three-day seminar on Taiwan-mainland economic links. Wu Xueqian and Zheng Tuobin address 65-member group.

mainland, however, are not nearly as concentrated. A disruption in trade would most profoundly affect Taiwan's textile industry, since the mainland is now Taiwan's fourth largest market, purchasing 6 percent of Taiwan's textile exports. The remaining exports are well divided among electronics and electrical equipment, steel, consumer electronics, and telecommunications equipment.

### *. . . investment for China*

Trends in investment have been more favorable for the mainland. According to one Fujian Province official, Taiwan delegations exploring investment opportunities in Fujian arrive at the rate of 40 per day. This may be an overstatement, but it's probably not off by much. In July, for example, 650 Taiwan businesspeople attended a three-day seminar in Beijing on Taiwan-mainland economic links. The leader of the delegation met with no less than Premier Li Peng and Party Secretary Jiang Zemin. Groups from the Taipei Computer Association, the textile



*Source:* Hong Kong Economic and Trade Office

# *Preferential Treatment for Taiwan Investors*

The central government took the lead in promulgating legislation granting preferential treatment to Taiwan investors by passing the "National Regulations on Encouraging Taiwan Compatriots' Investment" in July 1988. This legislation allows Taiwan citizens to invest in the same types of enterprises and enjoy the same tax breaks as other foreign investors. Because of their special status as *tongbao* (compatriots), however, Taiwan investors are allowed special privileges not available to other foreign investors, including the right to buy and sell real estate as well as enterprise stocks and bonds.

Since the promulgation of these measures, provincial and local authorities have followed the central government's lead, sometimes offering even greater preferences in an effort to attract Taiwan investment capital. Unsanctioned by central authorities, the local preferences offer benefits only to Taiwan investors, violating the spirit of the bilateral trade and investment agreements China has signed with many foreign countries. However, no formal protests appear to have been lodged.

The following is a list of incentives offered to Taiwan investors by certain mainland locales. It is not intended to be a comprehensive assessment.

**Xiamen SEZ** issued preferential policies for Taiwan investors in August 1988. Measures include:

- Industrial and agricultural projects that have a contract life exceeding 10 years are exempt from corporate tax for the first four profit-making years, and will be taxed at half the normal rate for the next five years.
- Enterprises may sell up to 30 percent of output locally, provided the enterprises employ advanced technologies and equipment and/or have import substitute status.
- Enterprises are exempt from land-use fees during the construction period and the first five years of operation.
- Relatives or friends living outside Xiamen SEZ may be designated to act as agents or representatives. If necessary, up to three such agents per enterprise will be granted permanent resident status.
- Taiwan investors and their agents outside China may apply for multiple-entry visa and residence permits.

In early 1989 the Xinglin and Haicang districts were incorporated into Xiamen SEZ to attract Taiwan investment. Taiwan projects in these zones are accorded the following treatment:

- Exemption from taxes for the first two years and taxation at 50 percent for the next three years.
- Advanced technology or export-oriented projects are tax exempt for the first three years and pay 50 percent of the usual rate for the next four years.

**Fuzhou** in January 1989 announced the following special preferences for Taiwan investment in Fuzhou municipality and surrounding eight counties:

- Enterprises operating for at least

industry, and the National Federation of Industries have also visited recently.

Beijing took the first move to encourage Taiwan investment in the mainland in July 1988, when it promulgated the National Regulations on Encouraging Taiwan Compatriots' Investment. These provisions provide Taiwan the same privileges as other foreign investors, with a few notable exceptions: Taiwan investors are allowed to buy company shares and bonds in addition to real estate, and are also permitted to undertake land development and management. Since then, Taiwan enterprises have invested in over 1,000 projects throughout China, with total pledged capital exceeding $1.3 billion. The vast majority of these projects are concentrated in southeastern China, especially in Xiamen and elsewhere in Fujian Province. By the end of May, Xiamen authorities had approved 271 Taiwan-related investment contracts, with pledged investment of over $700 million. Fuzhou, also in Fujian Province, has attracted over 100 projects, while Shenzhen, in Guangdong Province, accounts for over 150 projects. With the exceptions of Shanghai—because of its large textile industry and active promotion of the Pudong Development Zone—and Beijing, which in March reported 45 Taiwan investment projects with a pledged capital of around $150 million, other regions of China have not been successful in attracting Taiwan investment.

Though Tiananmen had a negative impact on Taiwan investment, it was not as severe as the impact on Japan and the West. For instance, in July 1989 PRC authorities cited a monthly growth rate of Taiwan investment of 40.86 percent. This fell to 22.6 percent in August and 4.24 percent in September. US investment levels, by contrast, were negative for the same period.

Recognizing that Taiwan offered the best chance of keeping their foreign investment program alive, in late 1989 Chinese officials initiated an aggressive propaganda program to attract Taiwan investors to the mainland. They stressed the low labor costs, enormous market, stable currency (vis-a-vis the New Taiwan dollar), and favorable environmental protection regulations. Many municipalities enacted special legislation to create Taiwan investment zones or offer Taiwan investors preferential treatment (*see* box).

### *Taiwan's land-buying spree*

After small-scale processing and assembly operations, land speculation is one of the chief activities of Taiwan investors in the mainland. Despite China's austerity program and clampdown on construction, new buildings are sprouting up all over Xiamen. They are funded by Taiwan land developers who have established their own real estate companies or sell off the space to Taiwan businesses, splitting the profit with Xiamen real estate companies who pay only ¥3 per sq.m.

Land prices, accordingly, are spiralling. Forty-fifty year land-use rights in Xiamen commercial areas

---

10 years are exempt from taxes the first four years, and receive a 50 percent reduction thereafter.
- Up to 50 percent of income tax payments may be rebated when after-tax profit is reinvested. If profits are donated to charity, the entire amount of enterprise income tax may be returned.

**Guangdong Province** limits Taiwan investment to the Pearl River Delta and SEZs unless it is capital- or technology-intensive. Preferential tax treatment includes:
- Tax exemption for the first two years, a 50 percent rate for the next three years, and 25 percent for the subsequent 10 years.

**Guangzhou** issued the following preferential treatment guidelines for Taiwan investors in April and May 1990:
- Enterprises are exempt from income tax for the first three years of operations. For the subsequent four years, taxes will be imposed at 50 percent.
- Projects that reinvest their profits get a 50 percent tax rebate. If the profits are invested in technologically-advanced enterprises, a 100 percent tax rebate is granted.
- Land rental costs are to be reduced by 20-30 percent.
- Business travelers may receive multiple-entry visas.
- Taiwan investors are to receive priority in loans.
- Projects with less than ¥1 million investment receive a 1.5 percent incentive bonus. If advanced technology is imported or infrastructure is developed, the incentive bonus may be increased up to 20 percent.
- Taiwan investors who invest over $30 million will be granted urban residence permits for their relatives in the countryside.

**Shantou SEZ** in April 1990 established the Zhuchi and Guangao Taiwan Investment Zones and issued other measures to encourage Taiwan investment. These regulations also apply to Taiwan-capitalized enterprises whose corporate seats are not in Taiwan. Measures include:
- Land use and related fees are to be 5-10 percent below prevailing standards for other foreign investors.
- Projects are exempt from rent during construction and for five years following construction.
- Enterprise income tax is charged at 15 percent. The first two profit-making years are tax exempt, with a 50 percent reduction for the next three years. High-technology enterprises enjoy a further three years of reduced taxes.
- Enterprises which export at least 70 percent of production are taxed at the discounted rate of 10 percent. Exports are exempt from customs duty and consolidated industrial and commercial tax.
- Taiwan investors are to receive preference in the areas of enterprise approval, registration and autonomous management, and operation.

**Zhuhai** SEZ has established a special zone for Taiwan investment with the following privileges:
- A 10-year exemption from local taxes and a six-year exemption from other taxes. The next four years are taxed at 50 percent.

**Beijing municipality, Hainan and Hebei provinces, and Wenzhon city** have also announced plans to establish special Taiwan investment zones.

*Compiled by Eliza Rosenbluth*

# *The Impact of PRC-Taiwan Ties on Hong Kong*

Rapidly expanding ties across the Taiwan Strait are prodding China traders to speculate on changes to Hong Kong's role as the nexus between the mainland and Taiwan. Hong Kong has profited greatly from mainland-Taiwan trade, particularly in the processing, shipping, finance, and tourism industries, and stands to lose should the two sides establish direct links. While Taiwan could not usurp Hong Kong's entrepot role overnight, it could pose a serious challenge. Massive Taiwan investment in Fujian Province might also deflect investment away from the development of Guangdong Province, whose economy has become increasingly integrated with Hong Kong's. And Taiwan's apparent imitation of Hong Kong investment in China—low-end, light industrial processing facilities exporting primarily to the United States—could have a profound influence on the receptivity of traditional markets to Hong Kong exports.

### *Who will lose?*

Establishment of direct trade between Taiwan and China will likely have an immediate impact on several sectors. In particular:

- **Shipping** Taiwan-China trade accounts for about 10 percent of Hong Kong's re-exports. Once direct trade links are established, shipping through Hong Kong would no longer be necessary or competitive for most Taiwan companies.
- **Tourism** Hong Kong's tourism industry has greatly benefited from increased contact between Taiwan and the mainland. Of a total 1.13 million Taiwanese visitors to Hong Kong last year, close to half traveled to the mainland on the same trip. If current trends are sustained, approximately 1.6 million Taiwan visitors to Hong Kong can be expected this year, with some 770,000 of them continuing on to the mainland. If direct flights and ferry routes are established between Taiwan and the mainland, however, the number of Taiwan tourists to Hong Kong will inevitably decrease—though it's impossible to gauge by how much.
- **Banking** Hong Kong's role as a financial center for trade between China and Taiwan will be the slowest to be affected by direct ties. Currently, Taiwan's banking sector is too basic and inexperienced to take over many of the functions currently carried out by Hong Kong's banks. However, depending on how quickly Taiwan implements planned financial sector reforms (i.e., privatization of State banks and creation of new private banks), Hong Kong-based banks may eventually be threatened with the loss of some of their "bread and butter" work—such as letters of credit and trade financing—unless they are prepared to shift it to their Taiwan branches. Large-scale project financing, however, will still require the services of Hong Kong and foreign banks.

Though Taipei is incapable of replacing Hong Kong as a major financial center in the foreseeable future, greater sharing and coordination of China-related business between Taiwan and Hong Kong banks is inevitable.

### *A new investment gateway?*

Removal of restrictions on direct investment by Taiwan citizens in the mainland will also have profound consequences for Hong Kong. Once the restrictions are lifted not only will Taiwan investment in the mainland increase, but much of it will be channeled directly, rather than through Hong Kong subsidiaries.

However, rising Taiwan influence does not mean that the door to China through Hong Kong will close. By virtue of its location and experience, Hong Kong will continue to play an important role in China's development, providing foreign and Taiwan entrepreneurs expertise on China business matters. Even though Hong Kong investment in the mainland is decreasing—a reflection of lost confidence since Tiananmen—the scale of previous investment will ensure its position as a key foreign player in China.

### *Triggering US protectionism*

Growing Taiwan investment in China is already affecting international trade flows, and may exacerbate current imbalances in the future—to the detriment of Hong Kong. China now supplies more than 54 percent of Hong Kong's total re-exports, up from 33 percent in 1984. The largest single market for these re-exports is the United States. Much of the increase in China's US exports stems from Hong Kong factories that have shifted operations to China, in effect shifting trade from Hong Kong's books to China's. Taiwan manufacturers, faced with rising domestic production costs, labor shortages, environmental constraints, and a host of other problems at home, have already begun to adopt a similar strategy. In time, the result will be a huge increase in Chinese exports to the United States.

Given current tensions over China's most favored nation (MFN) trading status in the United States, however, the prospect of an increased trade deficit with China is bound to be viewed unfavorably by US officials. China already has one of the largest trade surpluses with the United States of any country in the world, and Beijing's austerity program has significantly reduced US exports to China. The US deficit with China could thus rise to $10 billion this year.

The combined effect of Taiwan and Hong Kong's production shifts to China could raise the mainland's US trade surplus enough to trigger protectionist sentiment in Washington. The issue will certainly become increasingly sensitive over the next few years—the Department of Commerce is already sounding alarms over the current deficit—and could prove more detrimental to China's trading status than the current political contoversy. Any new US limits on Chinese products would inevitably hurt Hong Kong, since a significant percentage of China's exports to the United States originate in Hong Kong-owned factories.

### *Preparing for the inevitable*

Determining when and to what extent direct trade and investment links will be re-instituted between Taiwan and China is difficult. Experts disagree as to the timing, with estimates varying from six months to five years. The pace of reform in the mainland and Taiwan will shape developments considerably, but the mainland is clearly hungry for investment and Taiwan is starved for raw materials and cheap labor. This means that business planners throughout the Asian region must be prepared for politics to catch up to economic reality.

—Robert C. Broadfoot,
managing director,
Economic Risk Consultancy

now run ¥3,000-4,000 per sq.m. Land for industrial use in the Huli district, the original 2.5 sq. km. SEZ, now runs over ¥800 per sq.m. In early 1989 authorities added two districts to double the size of the zone and provide land for industrial use to Taiwan investors in the ¥100 per sq. m. range. These prices, and Xiamen's cheap labor—one Taiwan factory owner in Xiamen said he pays his mainland employees one-thirtieth what he paid in Taiwan—help guarantee continued Taiwan interest in Xiamen.

### *Applying the brakes*

Although the trends in investment are encouraging for the mainland, they represent a double-edged sword for Taiwan. For although Taiwan investment in the mainland enables Taiwan manufacturing enterprises to maintain a competitive edge in the region, an increasing number of capital- and technology-intensive enterprises have also begun moving to the PRC, threatening the long-term stability of Taiwan's economy.

The Taiwan government's tacit approval of investment in the mainland appeared aimed at allowing Taiwan manufacturing enterprises to bolster their position in the region and capture market shares on the mainland. Regulators and policy makers did not intend to encourage the transfer of anything more than labor-intensive and sunset industries. In the clearest enunciation of this policy to date, Yang Shih-chin, a senior official in the Ministry of Economic Affairs, announced that the defense industry, government-funded industries, high-tech industries whose products are subject to export controls, and industries deemed critical to the Taiwan economy are banned from investing in the PRC.

The vagueness and broadness of these guidelines mean that they will be difficult to enforce. Reports of major projects in industries deemed sensitive by the government and therefore supposedly off-limits to the mainland are common in the Taiwan press. The case of Formosa Plastics, whose chairman, Y.C. Wang, entered into a letter of intent to invest up to $7 billion in a petrochemical facility in Xiamen, has received the most fanfare. Wang has made numerous trips to the mainland to negotiate the deal, which involves an oil refinery

## *Speaking the Same Language*

*David Chang directs his own consulting company and acts as special assistant to the chairman of Nike Inc., which has joint ventures in Fujian and Guangdong provinces. He spoke to Editor Pamela Baldinger about the growing influence of Taiwan businesspeople on China trade and investment.*

**CBR:** *Does Nike have Taiwan partners or managers in its China operations?*

**Chang:** Well, there are really two answers to that. Back in 1980-81, when we first entered China, we certainly didn't have Taiwan partners in mind—tensions between Taiwan and China were very high. In fact, because I was traveling to China for Nike, I couldn't even get a visa for Taiwan—and we were sourcing 40 percent of our products from there.

Then, when Taiwan announced in late 1987 that old soldiers would be permitted to return to the mainland, a very interesting thing happened. There were suddenly a lot of 35-year old "old soldiers" in pinstripe suits walking around Fujian Province. By that time, when I tried to go to Taipei, I was welcomed with open arms—because they needed to learn how to do business with the mainland.

Basically, we chose three key Taiwan factories—we'd been sourcing in Taiwan for 14 years already—and encouraged them to go to the mainland. After 40 years of indoctrination, they were somewhat reluctant—I actually had to accompany the owners to China because they were afraid they'd be in danger. At any rate, they all formed joint ventures that are very successful. Nike places a lot of orders through them.

**CBR:** *What are the advantages of dealing with Taiwan joint ventures as opposed to Chinese enterprises?*

**Chang**: It's like night and day. Taiwan has been making shoes to Western specifications for 15-18 years. They understand the requirements and have good quality control. And Taiwan managers are excellent—they function better in China than many Western joint venture managers because they understand the Chinese mentality. They speak the same language and are not considered alien; blood is thicker than water. This makes a 110 percent difference.

**CBR**: *Does Nike employ Taiwan managers in its joint ventures?*

**Chang:** We have 7–12 long-term Taiwan residents at each venture. These are people who have been in the shoe business for years, and sometimes they actually live above the factory. They are very different from most Western managers, who generally know little about China and are somewhat removed from their employees.

Our Hong Kong staff don't actually live in China. They serve important support roles: dealing with the designs, making sure that samples and raw materials arrive on time. Their role is critical because many of the raw materials are coming from Taiwan through Hong Kong, and then to China.

We've been incredibly fortunate at Nike. We were originally located in Beijing and Shanghai; eight years ago we moved to Fujian and Guangdong—the provinces closest to the major sources of outside influence (Taiwan and Hong Kong). But when we moved to Fujian it was very backward; the government had not invested or built up the infrastructure there because it was the front line against Taiwan. Now, the proximity to Taiwan is a blessing—it's turned Fujian into the shoe-making center of China.

and two naphtha crackers with combined production capacity of over 1 billion tonnes of ethylene per year.

This plan is well beyond what government policymakers envisioned for China investment projects both in terms of size and sophistication. If Formosa Plastics opens its upstream naptha plant, many downstream industries are bound to follow. And since the petrochemical industry accounts for 38 percent of Taiwan's industrial output, government officials are loath to let it go. The *Economic Daily News* has reported that Taiwan's central bank has instructed Taiwan commercial lenders not to take part in the Formosa Plastics deal, and the government is putting pressure on Wang to relocate the project to Taiwan.

What Wang actually wants from the deal is subject to dispute. Some argue that he is merely pushing the Taiwan government to grant concessions on various Formosa Plastics projects that have been plagued by increased land and environmental compliance costs in Taiwan. Wang's son, however, has stated that Formosa Plastics must expand to the mainland or it will lose its customer base, since South Korean companies can ship directly to China at about one-third the cost of shipping from Taiwan-Hong Kong-Xiamen. Regardless of the motive, one thing is clear: The loss of such a project to the Taiwan economy would be great.

At the moment, reporting on the deal has slowed, probably due to a combination of Formosa Plastics' being unable to secure the terms it needs from the mainland and because it is making headway in negotiations with the Taiwan government. In any event, the enormity of the Formosa Plastics project highlights the conundrum in which Taiwan policymakers now find themselves. In addition to Formosa Plastics, a major Taiwan computer company was reported in May to have begun promoting a $100 million industrial park for Taiwan investment on Hainan Island. The success of this project would have a profound impact on Taiwan's development, since it is aimed at Taiwan's increasingly competitive middle-technology companies.

### *Bane—or boon—for foreign companies?*

The growing commercial links between Taiwan and China are already having an impact on foreign companies. Hong Kong shippers and banks are the most obvious beneficiaries, but once direct trade is permitted, they will likely lose much of their Taiwan business (*see* p. 38).

*Tawain-China commercial relations are clearly at a turning point. The early excitement has peaked, leaving the relationship in a difficult transition phase.*

The impact on other foreign companies, however, is not so clear cut. Some US investors in Fujian Province, for example, claim they are being ignored in the province's rush to lure Taiwan investment. Others, however, are taking advantage of Taiwan interest in China to hire Taiwan managers who have the management, cultural, and linguistic skills to succeed in the mainland (*see* p. 39). Still others are following Taiwan trading partners to the mainland, where they source the goods of Taiwan enterprises. This is particularly true in the case of the shoe industry, where approximately one-half of Taiwan's manufacturers are estimated to have transferred operations to China. Such major companies as Volume Shoe Corp. (the largest shoe retailer in the United States), Nike, Reebok, and Adidas work with Taiwan suppliers on the mainland.

The exodus of Taiwan companies to the mainland is already having an important impact on trade balances, with mainland exports to the United States on the rise and Taiwan's on the decline. Similarly, US export opportunities in inputs for traditional Taiwan industries (footwear, for example), will also shift as Taiwan enterprises increasingly look to the mainland.

### *Entering a new phase*

Taiwan investors are still flush with the "China fever" that first infected US companies 10 years ago. However, expanded Taiwan investment in the mainland faces many obstacles. The lack of official relations prevents the two sides from putting into place bilateral investment or double taxation arrangements. Perhaps more important, Taiwan and mainland banks won't accept each other's letters of credit; most go through banks in Hong Kong. Foreign banks, such as Citibank and Credit Lyonnais, are reportedly opening offices in Xiamen to get in on this lucrative piece of business.

Such credit and banking issues will have to be handled before direct trade is permitted. Currently, BOC is rumored to be drafting a report proposing direct fund transfers between mainland and Taiwan banks. And aggressive Taiwan banks have been making discreet inquiries regarding entry into the cross-Straits trade finance business.

Any decision to permit direct trade also necessitates a decision on Taiwan's part on the role of government-controlled companies and banks, such as China Airlines, Yangming Shipping, and the three large commercial banks (First Commercial, Chang Hwa, and Hua Nan). Currently prohibited from dealing with China, these companies would suffer greatly if direct trade were established but they were still banned from participating. Allowing such companies access to China trade, however, poses thorny political problems for the Taiwan government.

Taiwan-China commercial relations are clearly at a turning point. The early excitement has peaked, leaving the relationship in a difficult transition phase. As Taiwan companies in more technology-intensive industries consider investment in China, they will be confronted by the problems of foreign exchange balancing, raw materials sourcing, dearth of skilled labor, and other systemic problems that have plagued other investors. At the same time, faced with the second phase of Taiwan investment in the mainland, the Nationalist government can no longer turn a blind eye, but must decide whether—and how—investment should be limited or discouraged. The months to come will thus reveal whether Taiwan's policymakers will foster the island's economic and political liberalization goals by extending commercial ties with the PRC, or whether they will tighten the reigns on further expansion. 完

# Arbitration in China

## *CIETAC's first foreign arbitrator provides an inside look at the new organization*

**Michael J. Moser**

In January 1989, China put into effect new rules overhauling its international commercial arbitration apparatus, first created in the 1950s to settle disputes between Chinese and foreign companies. As part of the long-awaited renovation, the arbitration body (Foreign Economic Trade Arbitration Commission or FETAC) was renamed the China International Economic and Trade Arbitration Commission (CIETAC) and revamped to take a more active part in settling disputes.

CIETAC now ranks as the second-busiest international arbitration body in the world, just behind the long-established International Chamber of Commerce (ICC) in Paris. About 80 percent of CIETAC cases involve trade disputes over import and export contracts, 14 percent relate to joint ventures and other investment contracts, and 6 percent deal with compensation trade and other issues. Cases involving maritime disputes are heard by the Maritime Arbitration Commission (MAC), which operates much along the same lines as CIETAC.

CIETAC's pending workload includes more than 400 cases, involving parties from some 24 countries—compared to a mere 30 cases five years ago. Payment problems stemming from the austerity program, fallout from the events of last June, and maturation of business relationships have all contributed to the increase. Although nearly 60 percent of the cases are filed by Chinese parties against foreign companies, foreigners have also been filing disputes with CIETAC at an increasing rate.

**Q** *Must disputes between foreign and Chinese parties be heard by* CIETAC*?*

*Some foreign companies worry that bringing a Chinese party to arbitration may endanger future business prospects. This fear generally seems unfounded.*

**A** Under Chinese law, parties to a foreign economic contract are free to decide where and how disputes should be settled. They may decide to arbitrate under institutional rules (such as those of the ICC or United Nations) or ad hoc rules, and may submit the dispute to an arbitral tribunal in China or a foreign country. Accordingly, agreement over where—and under what rules—arbitration should be conducted is often the subject of intense negotiations.

It is important that the agreement to arbitrate—and where the arbitration is to occur—be clear and in writing. Under CIETAC rules, a case may only be accepted if existence of an "arbitration agreement" between the parties can be shown. Normally, this agreement is found in the arbitration clause of a contract. CIETAC has drafted its own model arbitration clause which is now being incorporated into the standard-form contracts of State trading corporations (*see* box). In addition, other forms of written agreement—such as a hand-written note or an exchange of telexes before or after the dispute—have also been accepted by CIETAC as the basis for its jurisdiction.

Still, questions occasionally arise as to whether or not an agreement has been formed between parties. Such tricky jurisdictional issues are left up to the arbitration commission—CIETAC's governing body. In one recent case, for example, a contract clause simply stated that the arbitration should take place "in China." Since CIETAC considered itself the only arbitration organization in China capable of handling the dispute, it deemed that the case fell within its jurisdiction—despite the possibility that the parties may have wanted to arbitrate in China but with governing rules other than CIETAC's. In another case, a party that had never previously agreed to CIETAC's jurisdiction responded in writing to a claim submitted to CIETAC by a Chinese plaintiff. Even though it denied responsibility for the dispute, the responding party never indicated that it did not accept CIETAC's jurisdiction. It was therefore deemed to have agreed to CIETAC's adjudication.

**Q** *Should I choose arbitration in China or a third country?*

**A** Generally speaking, Chinese parties tend to prefer arbitration in China, as reflected by the State trading firms' standard clause. But most foreign companies tend to prefer arbitration in a third country—the favorite choice being Sweden. Still, the number of cases arbitrated outside of China is small; five have reportedly been handled by

*Michael J. Moser is a Hong Kong-based partner in the international law firm Baker & McKenzie. He was the first foreigner on CIETAC's panel of arbitrators to hear a case, and frequently advocates on behalf of foreign companies before CIETAC. He is also a member of the panel of arbitrators of the American Arbitration Association.*

the Stockholm tribunal. Arbitration proceedings may also be held in Zurich, London, Hong Kong and other places. Arbitration before the ICC in Paris, once frowned on by China due to Taiwan's membership in the organization, is now also permitted.

For many foreign companies, the desire for foreign arbitration is motivated less by lack of confidence in the Chinese arbitration system than the belief that Chinese parties, faced with the threat of costly arbitration in a foreign language far away from home, will be more willing to compromise. However, several recent cases suggest that this view may be misconceived. In a claim brought to the Stockholm tribunal in 1988 by a US company, the Chinese defendant—China National Machinery and Equipment Import/Export Corp. (MACHIMPEX)—defended vigorously and ultimately won the case. The US party was forced to pay damages and attorney's fees. Last year, China National Light Industrial Corp. (CHINALIGHT) enlisted the aid of some of China's top legal scholars to defend itself successfully before the ICC against a claim by a Kuwaiti company.

Some foreign companies also worry that bringing a Chinese party to arbitration may tarnish their reputation in China and endanger future business prospects. Unless a company's entire China business depends on good relations with a single supplier, this fear seems unfounded, especially as more and more Chinese companies find themselves in competition with one another. For example, in one recent case a foreign company brought to CIETAC a claim against a branch of an import/export corporation. During a recess in the arbitration hearings, the foreign company met with the offender's parent company to negotiate a new deal! The parent company reasoned that the arbitration case was the branch's problem and didn't even discuss the ongoing arbitration during the new business talks.

**Q** *How do I take a dispute to CIETAC?*

**A** Bringing a claim to arbitration with CIETAC is relatively simple. Either party to a dispute may submit an application to the CIETAC secretariat containing the names and addresses of the parties, evidence of the arbitration agreement, claim, and supporting documents and information. At the same time, the applicant must also appoint its arbitrator and put down a deposit which will be returned if the ruling is in his favor (*see* box). Applications are normally submitted to CIETAC in Beijing, unless the parties have otherwise agreed to use one of CIETAC's subcommissions in Shenzhen or Shanghai.

Upon receipt of the application, the CIETAC secretariat will mail a copy to the defendant, which must appoint its arbitrator within 20 days and submit its defense—together with supporting evidence—within 45 days. At this time, the defendant is permitted to raise any counterclaims. After the exchange of documents, the case is docketed and a date is set for the hearing. Parties are notified within 30 days prior to the hearing.

In some cases, quick action is needed before the hearing to prevent the object of a dispute from disappearing, funds from being spent, or other action from being taken which would render any subsequent arbitral award worthless. In these circumstances, a party may apply through CIETAC to the people's court to order the attachment of property, injunctive relief, or other appropriate measures. In one recent case, the court ordered payment under a letter of credit frozen after a Chinese buyer alleged fraud in a transaction. Because the allegations could not be sustained, the letter of credit payments were released and damages were imposed on the Chinese party.

**Q** *Who arbitrates the dispute? Do I have a say in their selection?*

**A** Normally, cases are heard by a panel consisting of three arbitrators—one appointed by each of the parties and the third appointed by the commission. In simple cases there may be just one arbitrator appointed jointly by the parties or, failing agreement, selected by the arbitration commission on their behalf. Cases with just one arbitrator, however, are rare. Arbitrators must be chosen from CIETAC's official panel, which consists of some 80 or so arbitrators. Before January 1989, only Chinese nationals were included on the panel, but since then four foreigners have been appointed: three US lawyers and the attorney general of Singapore. All arbitrators on the panel must be fluent in Chinese.

An arbitrator may be removed should it be proven he has a "personal interest" in the case. However, since there is no clear understanding of what constitutes conflict of interest, the task of disqualifying arbitrators has been left to the arbitration commission. The commission has so far wisely exercised its discretion, but clear, objective ethical standards and guidelines are needed to govern both conflict of interest issues and arbitrator conduct.

**Q** *What is a typical hearing like? Is it similar to one held in the West?*

**A** Hearings are usually scheduled in the main conference room of the local CCPIT office in Beijing, Shanghai, or Shenzhen. Typically, a long table is arranged with a white tablecloth, the arbitrators sitting at the head of the table and the disputing parties and their representatives facing each other on opposite sides. At the end of the table sit secretariat personnel, interpreters, and recording technicians.

## Locating CIETAC

**National Headquarters**

1 Fuxingmenwai Street
Beijing
Tel: 862966; 8013344; 866118
Fax: 8011369
Tlx: 222288 TPLAD CN

**Shanghai Branch Commission**

33 Zhongshan Road East
Shanghai 200002
Tel: 3219213
Fax: 3291442
Tlx: 33290 SCPIT CN

**Shenzhen Branch Commission**

17/F, 59 Shennanzhong Road
Shenzhen
Tel: 364775
Fax: 364776

The physical layout of the room reflects the atmosphere in which the hearings are conducted—a blend of formality and informality. The hearing typically begins with the chairman of the tribunal—the head arbitrator—introducing the other arbitrators. Then the applicant states his case and the respondent is given time to summarize his defense.

Upon the request and agreement of both parties, a case may be tried by examination of written documents alone, but this procedure is rare. Postponements may be requested, but must be applied for no later than 12 days prior to the date of the originally scheduled hearing.

CIETAC's slogan, "Take the facts as the basis, and the law as the measuring stick," illustrates its stress on examining the facts underlying the claims and defenses raised; less emphasis is given to legal argumentation. In searching for facts, arbitrators will question and probe the parties and their witnesses and request further information and evidence. Though arbitrators may conduct investigations to collect their own evidence or appoint experts to testify on specialist matters, the burden of fact finding is generally left to the parties.

Factual evidence is the key to success in most CIETAC arbitration cases. In a recent case, for example, a Chinese party brought a claim against a foreign manufacturer for defective equipment. The defendant was able to prove that the Chinese enduser had already sold the equipment and disbanded its operations, thereby nullifying the Chinese party's claim. It is in this capacity—rooting out evidence then framing it into convincing arguments during the hearings—that attorneys may be of most help. Both foreign and Chinese legal counsel are allowed at arbitration hearings, as long as a written power of attorney evidencing the appointment is submitted to the arbitration commission. Given the peculiarities of arbitration in China, it is critical that counsel read and speak Chinese and be experienced in negotiating in a Chinese setting.

*During the hearing, the arbitrators will frequently encourage the parties to compromise and conciliate the dispute.*

Only after the factual inquiry has been completed does the tribunal turn its attention to the legal issues involved in the case, usually applying Chinese law. However, in cases where parties have designated foreign law to govern their relationship, the arbitrators may ask for evidence as to the relevant provisions of the foreign law or appoint a foreign lawyer to advise them.

One of the distinctive features of CIETAC arbitration—and of Chinese dispute settlement practices in general—is the crucial role played by conciliation. During the hearing, the arbitrators will frequently encourage the parties to compromise and conciliate the dispute. On occasion, the hearing may even be adjourned to allow the parties the opportunity to negotiate off the record. In such cases a "wave effect" comes into play, with the arbitrators playing the roles of mediator, conciliator, and judge at different phases of the proceedings.

The arbitration tribunal is required to render its award within 45 days of the close of proceedings. Tribunals of three arbitrators decide by simple majority vote. If one of the arbitrators disagrees with the majority, a separate written dissent may be issued. However, CIETAC's emphasis on consensus decisionmaking means that dissent is rare.

## Stipulating CIETAC

In order to avoid uncertainty in arbitration agreements, CIETAC has drafted a model arbitration clause for insertion in contracts. It is standard for most State trading corporations to stipulate the following:

*Any dispute arising out of the execution of or in connection with this contract shall be settled first through consultation directly between the parties to this contract. If such consultation fails, the dispute shall be submitted to the China International Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade for arbitration in Beijing (or Shenzhen or Shanghai) in accordance with its arbitration rules of procedure as amended.*

*The arbitral award shall be final and binding upon the parties to this contract.*

**Q** *What language are proceedings conducted in? How much does arbitration cost?*

**A** Chinese is the official language of CIETAC. All correspondence must be in Chinese and all hearings are also conducted in Chinese, so foreign parties should retain their own interpreters and translators. The arbitration commission will also provide translation services and supply interpreters upon request.

Arbitration is usually an inexpensive alternative to litigation, generally requiring about half the time and money. Apart from attorney expenses and out-of-pocket costs, the losing party of must pay CIETAC an arbitration fee. The precise scale is complex, with a minimum fee of ¥2,000 (about $425—*see* box). Based on its final ruling, the arbitral tribunal decides whether one or both parties must ultimately foot the costs of the proceedings.

**Q** *Can CIETAC awards be appealed? How are they enforced?*

**A** Awards issued by the CIETAC arbitration tribunal are final and cannot be appealed. Neither party may appear before a court or request any other arbitration institute to review the award. Tribunals may issue default awards in cases where defendants do not appear; generally, however, CIETAC will notify the defendant and schedule hearings at least twice prior to issuing a default award.

Awards enforced against compa-

- [ ] Yes! I will stay informed about China's rapidly changing business climate by subscribing to *The China Business Review* (bimonthly).

- [ ] For current subscribers: Please renew my subscription for _______ year(s).

- [ ] Yes! I would like information on **The US-China Business Council**.

## *Annual CBR Subscription Rates (US dollars)*

- [ ] $96 USA & Canada
- [ ] $66 Student or Faculty (US & Canada only—copy of ID required)
- [ ] $132 International Airmail

## *Form of Payment*

- [ ] Enclosed check payable in US dollars to **The China Business Forum**
- [ ] Credit Card— *Master Card* ☐ *Visa* ☐
  Card # ______________________ Exp. ______
- [ ] Bill me later

*Name* ______________________

*Title* ______________________

*Company* ______________________

*Type of Business* ______________________

*Address* ______________________

______________________

*Phone* ______________ *Fax* ______________

Place
Postage
Here

*The China Business Review*
1818 N Street, N.W.
Suite 500
Washington, DC 20036
U.S.A.

nies in China follow the provisions of China's Civil Procedure Code, in trial implementation since October 1982. The code treats a CIETAC award much like a court judgment and provides for such means of compulsory execution as seizing property and freezing bank accounts, among others. Although Chinese companies may at times drag their feet in complying voluntarily with an award, problems usually derive less from evasion than from the penalized company's inability to fulfill the award.

Awards against foreign parties may be enforced pursuant to the terms of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958, or the New York Convention. China acceded to the convention in 1987 and during the last two years Chinese companies have been active in enforcing awards abroad, particularly in Hong Kong. Although it is possible to contest the validity of an award in an enforcement proceeding, the grounds under which such objections may be raised under the New York Convention are extremely narrow. They include such things as lack of adequate notice or lack of opportunity to be heard in the arbitration proceedings.

## CIETAC Arbitration Fees

Applications for CIETAC arbitration require a cash deposit to cover CIETAC arbitration fees. If the applicant wins the case, his deposit is returned and the losing party must pay the arbitration fee on top of any award. The fee is calculated—in *renminbi*—according to a percentage of the amount claimed. Foreign parties, however, are required to pay in US dollars.

| Amount of Claim | Arbitration Fee |
|---|---|
| Less than ¥100,000 ($22,000) | 4% of amount subject to minimum of ¥2,000 ($425) |
| ¥100,000-500,000 ($22,000-106,000) | ¥4,000 ($850) plus 3% of amount in excess of ¥100,000 |
| ¥500,000-1 million ($106,000-212,000) | ¥16,000 ($3,400) plus 2% of amount in excess of ¥500,000 |
| ¥1 million-5 million ($212,000-1,060,000) | ¥26,000 ($5,600) plus 1% of amount in excess of ¥1 million |
| Over ¥5 million ($1,060,000) | ¥66,000 ($14,000) plus 0.5% of amount in excess of ¥5 million |

**Q** *Is arbitration with* CIETAC *fair?*

**A** Fairness—like beauty—is in the eye of the beholder. Parties who are satisfied with the results of CIETAC arbitrations tend to be unreserved in their praise; losing parties often complain. In the final tally, however, CIETAC findings have been fairly evenly split between Chinese and foreign parties.

Still, foreign parties often complain that CIETAC is biased in favor of the Chinese side since proceedings are conducted inside China and in the Chinese language. Others point out that CIETAC's emphasis on compromise and conciliation, rather than on strict legal interpretation, tends to run counter to what foreigners expect from a legal proceeding. But other aspects of CIETAC procedure, such as permitting foreign lawyers to appear at hearings and sit on the panel of arbitrators, are praised by foreigners. In these and other matters, the rules governing arbitration in China are more liberal than those in Japan, Singapore, and other areas of Asia.

CIETAC has been working overtime to impress foreigners with its objectivity and fairness. Earlier this year, a major award was issued with great publicity by CIETAC's Shenzhen tribunal in favor of a US manufacturer involved in a long-running dispute over rubber gloves. Similarly, in a recent case involving a West German group and a major Chinese import/export corporation, a substantial recovery was obtained by the foreign party. In that case, the Chinese seller of television sets never produced or delivered the contracted goods to the German buyers; the CIETAC tribunal ordered the seller to pay the buyer's lost profits and arbitration expenses—including attorney's fees.

**Q** *Are there any changes in store for* CIETAC?

**A** CIETAC officials are keen to continue the process of internationalizing arbitration in China. Further improvements to the existing system, such as the appointment of more foreign arbitrators, the issuance of rules regarding ethical conduct, and the establishment of a special tribunal for the handling of disputes involving Taiwan cases, can therefore be expected. Efforts already being made on these fronts, coupled with the improvements embodied in the recently revised CIETAC rules, are welcome signs of China's commitment to make CIETAC an effective, inexpensive, and impartial forum for the resolution of business disputes.


**Now that we've heard your arguments, we've decided you really should solve this problem yourselves.**

*Artwork courtesy of Eugene Theroux*

# Training China's Business Elite

## *MOFERT universities provide links to tomorrow's business leaders*

**by Gregory R. Dalton**

When it comes to obtaining an export license or approval for a joint venture, foreign firms in China know where to turn—the Ministry of Foreign Economic Relations and Trade (MOFERT). Yet few foreign companies realize that MOFERT is also in the education business, coordinating a network of management training institutes throughout China, including Shanghai, Tianjin, Guangzhou, Hainan, and Beijing. Graduates of Beijing's University of International Business and Economics (UIBE), the top institute, comprise one-half of MOFERT's total workforce, including its 196 commercial offices overseas.

Unlike most other universities in China, which fall under the jurisdiction of the State Education Commission (SEC), UIBE—in addition to its regional counterparts—is governed and funded by MOFERT, though it is subject to SEC regulations. Established in 1954 to provide skilled personnel for MOFERT, the school's curriculum now features courses in market economics and Western management styles. This new emphasis provides an excellent opportunity for foreign businesses in China to become involved in the training of China's future business leaders. Although foreign companies have generally been slow to build long-term links with UIBE and the other MOFERT universities, they clearly have a stake in shaping the minds of tomorrow.

### *From Marx to marketing*

Although UIBE successfully introduces its students to Western principles of business and economics, the school still suffers from a legacy of Soviet-style education. For some 25 years, UIBE's narrowly focused faculty had a limited purpose: to train future MOFERT personnel in the execution of barter trade within the socialist camp. General business education was not part of the philosophy; the first foreign professors to teach at UIBE in the early 1980s would draw blank stares from students when raising concepts such as credit and finance.

In the last decade, however, MOFERT has rejected the Soviet model and set about instilling a new generation with the skills necessary to interface with the world economy. Although the MOFERT universities still lag behind their Western counterparts in business training, UIBE and its regional cousins have developed rapidly. UIBE's transformation is largely the result of its own "three modernizations:" adoption of Western texts and curricula, training of young faculty members, and expansion of educational scope.

Since 1980, UIBE's 800-strong faculty have logged 500 trips abroad for study and research, with the bulk of the trips made by teachers of English and trade. Many of these teachers have yet to return to China, but UIBE is still committed to sending young teachers abroad. New departments, such as economic cooperation and law, have also been created to fill functional gaps in the curriculum.

The majority of business and economics courses at UIBE now use US textbooks, untranslated, to teach modern principles of management, marketing, and accounting. *Das Kapital* is still required reading, but the degree of Marxist perspectives in marketing and management courses has been on the decline, and some finance classes are taught without Marxist interpretations of capital at all. However, just as capitalism and Marxism coexist in China's hybrid economy, so they exist on the UIBE campus. One accounting instructor, for example, is famous for exams requiring students to explain accounting according to Marxist theory. It is not uncommon for students to go from a Western macroeconomics class to one on the history of the Chinese communist party. Like China's top leadership, UIBE has yet to reconcile these fundamental contradictions.

### *The best and the brightest*

UIBE admissions criteria are similar to those of other Chinese universities, except that the required entrance exam score is substantially higher than the national average. This reflects the current desirability of jobs in foreign trade, which has sent the number of UIBE applicants—and qualifying exam scores—soaring. The bulk of the 3,500 students are undergraduates; about 60 graduate students are enrolled in a three-year course and another 40 or so attend a mid-career professionals program. Another few hundred students with technical degrees study English and trade for two years to earn a second undergraduate degree.

The undergraduate curriculum provides a basic grounding in economics and trade, with heavy emphasis on English language. Even before

*Gregory R. Dalton is a recent graduate of UIBE's business Mandarin program and was a visiting instructor at the Shanghai Institute of Foreign Trade in 1988-89. He is currently a freelance writer in Beijing.*

they arrive on campus, students must choose a major: business English, other business languages, international trade, management, economic cooperation, or economic law. To graduate, they must complete an internship in a Chinese enterprise or MOFERT itself.

Graduate management students in UIBE's international MBA program study Western business administration—in English—with foreign and Chinese instructors. Courses include marketing, accounting, organizational behavior, and other Western business subjects. Although the program could easily be completed in two years, the third year features an internship with a Chinese company and a thesis based on the experience. Compared to Western universities, there is not much difference between the graduate and undergraduate curricula.

### *Reconciling Western theory with Chinese reality*

The gap between what is taught in a Western-oriented business curriculum and how to apply it in China can be great. Students' educations are theoretically geared toward managing profit-seeking enterprises, but much of this training is not put to use in Chinese companies, which cannot go bankrupt and often have operating objectives other than making money. Some professors note that the usefulness of learning Western notions of business depends on China's uncertain commitment to reform. "Unless a firm has complete autonomy, forget about decisionmaking," one senior management professor said, reflecting on the current trend of recentralization.

Regardless of the whims of China's economic planners, however, China is now clearly integrated with the outside world and remains committed to modernization. This requires MOFERT to train personnel who can make independent decisions both at the ministry and enterprise level. But UIBE has found formal decision-making, which challenges Soviet management models and Chinese culture, to be one of the most difficult concepts to import. Most graduates recruited by MOFERT are not utilized to develop policy, but rather to implement and support policy decisions handed down from above. Many students complain of being overeducated and underused.

*Although foreign companies have generally been slow to build long-term links with UIBE and the other MOFERT universities, they clearly have a stake in shaping the minds of tomorrow.*

Cultural differences also complicate applying a curriculum based on Western market economies to China's hybrid economy. In some classes UIBE students have been unable to relate to US marketing texts based on Western values. Even if they understand a product such as microwave popcorn, they have difficulty applying Western principles of marketing and distribution to China.

UIBE administrators recognize the limitations of simply grafting Western lessons onto China. "Mechanical copying of Western texts is not good, but it is a first step," one senior professor explains. UIBE professors plan to make their courses more relevant to students by introducing texts based on actual business cases in China, such as the lawsuit involving the Guilin Sheraton. However, the body of such cases so far is rather small, and many Chinese companies are reluctant to provide information, particularly about unsuccessful deals. Moreover, few faculty members are qualified to write such books.

Politics also hampers the efforts of UIBE students and professors to apply Western business concepts to China. UIBE follows the political tide of MOFERT, which in turn is influenced by national politics. In the current climate, those who cling to the old Soviet model have gained influence, and UIBE officials quietly admit the Marxist content of business courses is likely to increase. In addition, since June 1989, students have been pulled from class to work in Beijing factories for several weeks of re-education. Job placement of UIBE graduates has also been influenced by the current climate, with increasing numbers of graduates being assigned to small work units at the grassroots level. Last year, 70 percent of all UIBE graduates stayed in Beijing, but this year only 50 percent will have that privilege; students say the real number will be closer to 30 percent.

Despite the increased influence of conservatives at UIBE, there is no evidence that courses featuring Western economic and management thinking are being rolled back. In fact, the university is sculpting its administration along Western lines—a move that could have a profound impact on the school's future.

### *A changing face*

UIBE's board of directors has been crafted to function much like one in the West; it oversees educational policy, guides future development, and raises funds from non-governmental sources. Comprised mainly of UIBE graduates, the board is headed by three honorary chairmen: China International Trade and Investment Corp. (CITIC) Chairman Rong Yiren, MOFERT Minister Zheng Tuobin, and Hong Kong business mogul Henry Ting Tung Fok. Thus far it has set four main goals for UIBE:

- Expand the student body from 3,400 to 5,000 by the year 2000;
- Restructure the administration into several colleges to improve management, enhance the flow of information, and improve faculty supervision;
- Add accounting and tourism departments to cater to China's future business needs;
- Build a new office/classroom building and dorm for overseas students with the help of Hong Kong investors.

Fulfilling these goals will probably require UIBE to expand links with the Chinese and foreign business communities—a significant departure from UIBE's traditional dependency on the State for funding and guidance. This may in turn inspire a new type of relationship among academia, Chinese and foreign business, and the Chinese government.

### *Opportunities for foreign firms*

Most foreign companies in China have been too bogged down with day-to-day business to undertake initiatives with UIBE, preferring to avoid projects with such uncertain payoffs. But by contributing to MOFERT's goal of creating a more qualified workforce of managers in foreign trade, foreign companies would probably improve their China business prospects. Enhancing the general level of business education in China could help solve such endemic problems as the lack of highly skilled Chinese managers, for example. Besides, in China, where formal relationships and informal contacts form the backbone of company success, having an "old friend" in MOFERT could be an invaluable asset.

Cooperation between the foreign business community and the MOFERT universities could come in many forms. Babcock and Wilcox has already cultivated a relationship with UIBE by sponsoring lectures and internships. Other such options include providing endowed chairs and corporate scholarships. Internships could be used to screen and train potential employees, as foreign companies are currently prohibited from recruiting directly on campus. Foreign companies could also more fully utilize UIBE's quality faculty by commissioning research or hiring them as consultants. One retiring professor at the Shanghai institute, for example, is currently negotiating to open a representative office for a European company. Other professors already work on the side for joint ventures, and many more would certainly be willing to undertake foreign consulting projects.

A few companies have taken advantage of UIBE's desire to expand relations with the business community by contributing to the campus. Japan's Ricoh has donated copiers and typewriters while Ogilvy & Mather donated $100,000 for construction of the new library. Now, almost every student at UIBE recognizes Ogilvy & Mather's name because of the plaque hanging in the school library marking its contribution.

MOFERT's institutes have also begun to cultivate relationships with foreign governments. While the US government has friendly relations with UIBE, universities and private institutions such as the Asia Foundation account for most US assistance. In contrast, the German and Italian governments have taken an active role at UIBE by establishing largely autonomous language centers on campus.

The German government in particular is aggressively using UIBE to promote German trade interests in China. Since 1985, its China-Deutsche Language Training Center has trained 450 junior economists and technicians. Each year approximately 90 cadres, managers, and technicians study German in Beijing before entering specialized technical/language training programs in Germany. These programs are operated by private companies and sponsored by the German government. In addition, a German translation center is being established at UIBE to provide on-call interpreters for German businesspeople. The new $3 million guest house and office facility will serve as a base for Germans doing business in Beijing.

### *Looking long term*

The Western orientation of MOFERT's universities provides opportunities for foreign companies in China to promote their own—and China's—long-term interests. For China, educational cooperation can aid in developing a workforce better able to facilitate domestic and foreign business. For foreign companies it can build goodwill—and good business links. 完

# Interview

*Shanghai Mayor Zhu Rongji led a delegation of mayors from five other major Chinese cities to the United States in July to examine urban management issues and foster dialogue between the two countries. In an interview with CBR Editor Pamela Baldinger, Zhu discussed the investment climate in Shanghai and his outlook for US-China relations.*

# Developing Mutual Understanding

**CBR**: *During your visit to the United States, you've said that many foreign companies are interested in Shanghai's new special trade and development zone, the Pudong New Area. Have any American companies actually signed contracts there?*

**Zhu**: Many companies have expressed interest in Pudong, but few contracts have been signed. It will take some time. I believe Dupont [E.I. du Pont de Nemours & Co.] has signed a contract in Pudong.

The central government is permitting more liberal policies in Pudong than in any other area—a decision equal in importance to the creation of the 14 open coastal cities. Pudong will feature free trade zones and a stock exchange. Foreign banks will be allowed to operate there and companies will be able to issue stocks and shares.

**CBR**: *What efforts are being taken to develop the Shanghai stock market?*

**Zhu**: The joint stock exchange will be opened in Shanghai toward the end of the year. At first it will deal with government bonds and securities; the next phase will include stocks. It will be a step-by-step process. There is no specific timetable for each step.

**CBR**: *In the past year the central government has been trying to regain control over finances in China. Has Shanghai had to increase the percentage of revenue it turns over to Beijing?*

**Zhu**: Shanghai has not changed the ratio of revenue it submits to the central authorities. In fact, since the decision to inaugurate the Pudong development zone, the central government has given us a lot of support, so Shanghai is actually submitting a smaller percentage. Only Guangdong Province has had to increase its percentage.

**CBR**: *Is Shanghai going to implement legislation limiting the salaries foreign-invested enterprises can pay to their Chinese employees?*

**Zhu**: In Shanghai, workers in foreign enterprises earn 50-70 percent more than those in State enterprises. The central government earlier this year drafted regulations allowing them to earn up to 100 percent more. Shanghai will not place any more limitations on wages. Since the wages have not hit the 100 percent mark, in practice there is no limitation.

**CBR**: *I've heard the government is going to establish a new auditing agency that will specifically audit foreign joint ventures. What can you tell me about this?*

**Zhu**: I'm not familiar with such an organization, but I believe that every enterprise should have its books audited. If there is such a law being drawn up, I'm sure it will not go beyond international standards.

I want to add one thing with regards to your questions about the attitude toward foreign enterprises in China. Whatever regulations are adopted, the aim is to allow greater room for operations, not to impose limits on them. We encourage more foreign investment in China—this is the general principle we follow.

Last year, foreign investment in Shanghai increased over 1988 levels—but not US investment. The United States fell from the number one position with one-third of total investment to the number two position, accounting for only one-fourth of total investment. We hope it will increase this year.

**CBR**: *Has the debate over China's most favored nation (MFN) trading status in the United States hurt the competitiveness of US firms in China?*

**Zhu**: The debate over MFN is your own affair; we just watch for the end result. We hope that this problem can be settled in a satisfactory matter. This can only improve trade relations between our two countries. If there are any setbacks on this issue, it will not only hurt the Chinese, but also the American side.

**CBR**: *Many US officials are concerned about our growing trade deficit with China. In light of the cutback in imports under China's austerity program, what can be done about this situation?*

**Zhu**: This is something that can be worked out. Chinese would rather buy goods from the United States than from Japan. US technology is better and US companies have been more willing to transfer it. The Japanese, however, have three advantages when it comes to doing business with China: Their prices are lower than those offered by US companies; they better understand the Chinese mentality and system (I could say they understand it too well; some of them have successfully used illegal means—bribing corrupt officials—to do business); and most important, they have financing. US companies need concessional financing to get more business in China. I encourage US companies to tell their government to increase the amount of financing available to US companies in China.

**CBR**: *Taiwan's trade and investment with China have been increasing very rapidly. Why?*

**Zhu**: The people of both China and Taiwan aspire to national reunification. Now that the investment climate in Taiwan has deteriorated, Taiwan entrepreneurs see very good opportunities in China. They are not only interested in putting money into Fujian Province, but also into other areas, such as Shanghai. During my recent trip to Hong Kong, a group of Taiwanese businessmen came specifically to talk to me about Pudong.

**CBR**: *Can Taiwan replace Hong Kong as the "middleman" for China trade and investment?*

**Zhu**: I don't think it's a matter of one replacing the other; Taiwan cannot replace Hong Kong, and Hong Kong cannot replace Taiwan.

**CBR**: *How do you interpret the final communique of the July G-7 summit in Houston?*

*Whatever regulations are adopted [with regard to foreign investment], the aim is to allow greater room for operations, not to impose limits on them. We encourage more foreign investment in China—this is the general principle we follow.*

**Zhu**: There were some relaxations regarding China, indicating the G-7 countries are positive about changes in China. But the economic sanctions imposed last year continue, and they now provide for more conditions to be attached to lending to China. Therefore, greater efforts are still required to revive economic cooperation between China and the United States. We hope that through mutual understanding we can gradually remove all the restrictions so that we can normalize our trade and economic relations.

Yesterday we went to talk to a number of congressmen. We discussed human rights issues. Although we did not reach a consensus, we got to understand each others' positions better. I told the congressmen that the human rights issues they were talking about are not the same issues we talk about in China. I won't say that human rights concerns don't exist in China, but I don't think they are as serious as the congressmen suggested. I think it harms both sides to insert such questions into the economic relationship. I hope that through people-to-people contacts we can remove the problems and better promote relations between our countries.

**CBR**: *Many people in the West refer to you as the future Gorbachev of China. How do you respond to that?*

**Zhu**: I don't feel happy! I'm China's Zhu Rongji, not China's Gorbachev.

# 中外貿易 China Business

## David Stifel

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

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

中外
贸易

SALES AND INVESTMENT THROUGH
July 15, 1990

**Foreign party/Chinese party**
**Arrangement, value, and date reported**

## Agricultural Commodities

### *China's Imports*

**Cherry Valley Farm Corp. Ltd. (UK)/Gaoqing County, Shandong Province**
Exported 10,000 Cherry Valley ducks with support of Agricultural Bank of China loan. $362,000 (¥1.7 million). 6/90.

**United States Department of Agriculture (US)**
Sold additional 2 million tonnes of wheat at subsidized prices under the Export Enhancement Program (EEP). 5/90.

### *Investments in China*

**Chia Tai Group (Thailand)/Xiamen Poultry and Animal Strains (Group) Co.**
Established joint venture to produce fodder, seeds, and seedlings. ¥270 million. 6/90.

**Chia Tai Group (Thailand)/Rudong County Feed Co.**
Established Nantong Chia Tai Co. joint venture to raise, process, and market chickens. $28 million. (TH:60%-PRC:40%). 3/90.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CAIEC: China National Automotive Import-Export Corp.; CATIC: China National Aero-Technology Import-Export Corp.; CCTV: China Central Television; CEIEC: China Electronic Import-Export Corp.; CEROILFOODS: China National Cereals, Oil, and Foodstuffs Import-Export Corp.; CHINALIGHT: China National Light Industrial Products Import-Export Corp.; CHINAPACK: China National Packaging Import-Export Corp.; CHINATEX: China National Textiles Import-Export Corp.; CHINATUHSU: China National Native Produce and Byproducts Import-Export Corp.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CMC: China National Machinery Import-Export Corp.; CNCCC: China National Chemical Construction Co.; CNOOC: China National Offshore Oil Corp.; CTIEC: China National Technical Import-Export Corp.; ETDZ: Economic Technological Development Zone; ICBC: Industrial and Commercial Bank of China; INSTRIMPEX: China National Instruments Import-Export Corp.; MLI: Ministry of Light Industry; MMEI: Ministry of Machinery and Electronics Industry; MOE: Ministry of Energy; MOTI: Ministry of Textile Industry; MPT: Ministry of Posts and Telecommunications; NA: Not Available; NDSTIC: National Defense, Science, Technology, and Industry Commission; NORINCO: China North Industries Corp.; SEZ: Special Economic Zone; SINOCHEM: China National Chemicals Import-Export Corp.; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; SITCO: Shanghai Investment and Trust Corp.; SPC: State Planning Commission.

### *China's Investments Abroad*

**Chaved International Investment Corp. Ltd. (Hong Kong) and Ikalink Proprietary Ltd. (Australia)/China State Farms Agribusiness Corp.**
Established Sino-Aust Corp. Ltd. sheep joint venture in Queensland, Australia. $6.25 million. (AU:30%-HK:30%-PRC:40%). 6/90.

## Agricultural Technology

### *Investments in China*

**Italy/Academy of Agricultural Sciences**
Opened joint citrus and tropical fruit tree research center in Guangzhou, Guangdong Province. $1.7 million (IT:76%-PRC24%). 6/90.

**E.I. Du Pont De Nemours & Co. (US)/Shanghai Agricultural Chemical Works**
Established Shanghai-Du Pont Agricultural Chemicals Co. Ltd. joint venture to begin production of Londax herbicide by 1992 in the Pudong Development Zone. $25 million. 5/90.

**Kirin Brewery Co. (Japan) and Tokita Seed Co. (Japan)/Qingdao Seed Co.**
Established Qingdao International Seed Co. joint venture to develop new seed and plant varieties for both domestic and foreign markets. $631,000 (J¥100 million). (JP:50%-PRC:50%). 5/90.

### *Other*

**International Development Association (IDA) of the World Bank Group**
Authorized loan to improve agricultural production in Hebei Province. $150 million. 6/90.

**Ghana**
Launched Chinese government-aided irrigation project to build two dams in Nobewam, Ghana, to be completed by end of 1992. $3 million. 5/90.

## Banking and Finance

### *China's Imports*

**NCR Corp. (US)/BOC**
Will sell 200 ATMs. $6 million. 5/90.

### Other

**Dresden Bank (FRG)/Shandong Provincial International Trust and Investment Corp.**
Signed agreement on business cooperation. 6/90.

**NCR Corp. (US)/BOC**
Donated two 5070 in-lobby ATMs to Beijing municipal government for automatic salary payments. 6/90.

**United Nations Educational, Scientific and Cultural Organization (UNESCO)**
Will extend assistance to train education administrators. $295,000. 6/90.

**Asian Development Bank/State Nationalities Affairs Commission**
Will provide loans for agricultural development and feeding and clothing of peasants in Guizhou Province. $590,000. 5/90.

**Raiffeisen Zentralbank Osterreich (Austria)/BOC**
Extended 10-year commercial loan to China. $168 million (ASch2 billion). 5/90.

**Creditor Italiano (Italy)/China Investment Bank**
Extended loan for use in purchasing foreign technology and equipment to boost export industry. $10 million. 4/90.

## Chemicals and Petrochemicals

### Investments in China

**Formosa Plastics Corp. (Taiwan)**
Signed contract for naptha project in Xiamen, Fujian Province. $7 billion. 6/90.

**Shell (China) Co. Ltd., a subsidiary of Shell Co. (UK)/CNOOC**
Established Nanhai Petrochemical Complex joint venture in Huizhou, Guangdong Province, to refine oil and produce ethylene. $18.7 billion. (UK:50%-PRC:50%). 6/90.

**NA (US)**
The Fule (China) Binder Co. Ltd. joint venture in Guangzhou ETDZ began production of thermotropic binders. 4/90.

### Other

**United Nations Development Programme (UNDP)**
Extending aid and loan package to finance restructuring of fracturing and acidizing technical services center. $505,000. 4/90.

## Construction Materials and Equipment

### China's Imports

**F. L. Smidth & Co. A/S, a subsidiary of Potagua A/S (Denmark)/Shanghai Jinshan Cement Works**
Exported technology and equipment to convert wet rotary-kiln production into pre-heated dry process. $10 million. 6/90.

### Investments in China

**Schindler Holdings AG (Switzerland) and Jardine Schindler Holdings SA (Hong Kong)/China National Construction Machinery Corp.**
Will increase investment in China-Schindler Elevator Co. joint venture by 50%. $10 million. 5/90.

### Other

**Okinawa Lucky Marble Cooperative (Japan)/China Materials and Equipment Import-Export Corp.**
Established Japan-China Materials joint venture to process Chinese granite and marble in Okinawa for Japanese market.

## Consumer Goods

### China's Imports

**Asahi Optical Co. (Japan)/Gansu Optical Instruments Industrial Co.**
Licensed production of compact cameras using Asahi parts and technology. 3/90.

### Investments in China

**NA (US)/Bengbu Hardware Factory and China National Packaging Import and Export Corp. Anhui Branch**
Established Five-Ring Office Supplies Co. Ltd. in Bengbu, Anhui Province. $297,000. 6/90.

**Chia Tai Ekchor Investment Co. Ltd., a subsidiary of the Chia Tai Group (Thailand)/Shanghai Auto Industrial Corp. and Shanghai Longhua Township Industrial Co.**
Established joint venture to produce compressors for automotive air conditioners. $29.6 million. (TH:50%-PRC:50%). 5/90.

**Ebauches Corp. (France)/China National Light Industrial Products Corp.**
Established joint venture in Zhuhai, Guangdong Province, to produce watch mechanisms. $2.1 million (FFr12 million). (FR:70%-PRC:30%). 5/90.

**Nippon Gakki Co. Ltd. (Japan)**
Tianjin Yamaha Electric Musical Instruments Co. Ltd. joint venture in Tianjin ETDZ began production of electric organs. 5/90.

**NA (Japan) and NA (Austria)**
Beijing Natural Cosmetics Co. Ltd. joint venture began production of liquid cosmetics, including Natural-188 Hair Restorer. 5/90.

### China's Investments Abroad

**USSR/Nanjing Plant No. 528**
Established color photo enlarging and developing center joint venture in Leningrad. 6/90.

**USSR/NA**
Will set up HBT Electronic Corp. joint venture in Tyumen, USSR. to produce typewriters for Soviet and East European markets. 6/90.

**NA (Ivory Coast)/NA**
Established joint venture in Abidjan, Ivory Coast, to produce *Maxam* and *Spearmint* toothpaste for West African markets. $900,000. 5/90.

**NA (Canada)/Yantai Beijixing Clock and Watch Group**
Established joint venture in Vancouver to assemble quartz and mechanical watches and clocks for sale in North America. $300,000. 5/90.

**NA (Australia)/Guizhou Cosmetics Factory**
Established joint venture in Melbourne to produce cosmetics using raw materials from China. $770,000 (A$1 million). (A:60%-PRC:40%). 4/90.

## Electronics and Computer Software

### China's Imports

**IBM Corp. (US)/Anshan Steel and Iron Complex and Wuhan Steel and Iron Complex**
Will sell computers under UNDP Computerized Maintenance and Management System project. $10.8 million. 6/90.

### Investments in China

**Hitachi Ltd. (Japan)/China Great Wall Industrial Corp.**
Established joint venture to develop Chinese versions of software to connect Hitachi's general purpose computer with China's personal computers. 7/90.

**Definicon International Corp., a subsidiary of Helionetics Inc. (US)/North Computer Application Development Co.**
Established Shenyang Shenlong Computer Systems Ltd. joint venture to produce and sell an advanced product combining personal computers with workstations. The systems will use MS-DOS. $1 million. (US:50%-PRC:50%). 6/90.

**Omron Teteisi Electronics Co. (Japan)/Shanghai International Science and Technology Corp.**
Shanghai-China Computer Co. joint venture began operations to develop Chinese language software. $457,000 (¥2.15 million). 5/90.

**NA (Japan)/Caohejing ETDZ, Shanghai**
Shanghai Daikei Data Processing Company joint venture began operations in data processing and development of software and hardware for export. $3 million. 4/90.

### Other

**WISC Ltd (Canada)/China Association for the International Exchange of Personnel**
Donated 10 Arch Rival 386 personal computers. 4/90.

**Motorola Corp. (US)**
Established a representative office in Beijing. 4/90.

## Engineering and Construction

### Other

**World Bank**
Construction begun on water diversion project in Qinghai and Gansu provinces, to be completed in 1992. $123 million. 4/90.

## Environmental Technology and Equipment

### China's Imports

**Serck Baker Inc., a subsidiary of BTR Inc. (US)/Shengli Oilfield**
Sold and installed water filtration system to treat water from Yangtze River. $1 million. 2/90.

### Other

**World Bank**
Approved National Afforestation Project loan to plant trees in 15 provinces. $300 million. 5/90.

## Food and Food Processing

### Investments in China

**Ajinomoto Co. (Japan)/Tianjin Foodstuff Seasoning Corp. and China Tianjin Guang Rong Soy Sauce Plant**
Established Tianjin Tianwei Seasoning Co. Ltd. joint venture to produce for export an amino acid ingredient for making soy sauce. $517,000 (J¥82 million). (JP:50%-PRC:50%). 6/90.

**Wadakan Shokuhin Kogyo (Japan)/Commodity & Technology Import-Export Corp. Heilongjiang Branch**
Began construction of joint venture to produce soy sauce. $316,000-632,000 (J¥50-100 million). 5/90.

**NA (Czechoslovakia)**
Beijing Hursen Beer Brewery joint venture began producing beer. $10.85 million (¥51 million). 4/90.

**Keen Union Investment (Hong Kong)/China Southern Airlines**
Established Guangzhou Nanlian Catering Co. $8.7 million. 3/90.

### China's Investments Abroad

**NA (Chile)**
Established joint venture to build two fishmeal plants in Chile. $30 million. 3/90.

## Leasing and Insurance

### Investments in China

**Comalong Trading Ltd. (Hong Kong)/Shanghai Land Administration**
Signed 50-year land lease for 42,724 sq m situated in Shanghai's Caohejing ETDZ. $10.88 million. 6/90.

## Machinery and Machine Tools

### China's Imports

**NA (FRG)/Daye Steelworks**
Imported equipment for 170 mm rolling machines to produce seamless steel pipes in Huangshi, Hubei Province.

### Investments in China

**Toho Engineering Co. Ltd. (Japan) and Waka Co. (Japan)/Dafeng Free Wheel Plant and BOC Yacheng Branch**
Fengdong Heat Treatment Co. Ltd. joint venture began producing drip air-controlled heat-treatment production lines. $1.5 million (¥6.8 million). 6/90.

**Conspec Control Co. (Canada)/China Coal Mining Equipment Corp., Tianjin Special Coal Mining Equipment Plant, and Fushen Coal Mining Safety Instruments Plant**
Fushen Conspec Control Co. Ltd. joint venture in Tianjin ETDZ began production of Senturion monitoring and control systems and other coal mining equipment. $2 million. 5/90.

## Medical Supplies and Equipment

### China's Imports

**DHV (Netherlands)/Ministry of Public Health**
Will provide turnkey operations, training, and technology transfer for establishment of three vaccine-product facilities under Asian Development Bank Rural Health and Preventative Medicine Project. $39.9 million. 5/90.

**Japan**
Extended grant for medical equipment for the Sichuan Province Cancer Institute. $1.8 million (J¥291 million).

### Investments in China

**HAQ Biomedical Inc. (US)/Zhanjiang Municipal Scientific Committee, Guangdong Province**
Established joint venture to produce diagnostic kits using blood from horseshoe crabs. HAQ will provide technical training and be responsible for marketing and sales. $1.7 million. 5/90.

**Yongcheng Corp. Ltd. (Hong Kong)/Chengdu Municipal Pharmaceutical Plant No. 7**
Established joint venture in Chengdu, Sichuan, to produce tetracycline. $1.7 million (¥8 million). (HK:50%-PRC:50%). 5/90.

**NA (FRG)/Shuijinggong Hotel, Tianjin**
Tianjin Shuijinggong International Clinic joint venture began offering traditional Chinese and Western medical services to foreigners. 4/90.

**Dalong & Co (Hong Kong)/Shaanxi College of Traditional Chinese Medicine**
Shaanxi Diagnosis Centre joint venture in Xianyang began service. $8.5 million (¥40 million). 3/90.

### *China's Investments Abroad*

**Chinese Patent Medicines and Medicated Liquors Centre (Malaysia)/Beijing Traditional Chinese Medical and Health Ltd.**
Established the Chinese Medical Health Centre in Penang, Malaysia to practice traditional Chinese medicine. $200,000. (ML:50%-PRC:50%). 6/90.

**USSR/Harbin Municipal Hospital of Traditional Chinese Medicine**
Opened a traditional Chinese medicine clinic in Nirunikominsk City, USSR. 5/90.

### *Other*

**Children's Fund of Britain (UK)**
Extending grant to train medical workers in Tibet Autonomous Region. $213,000 (¥1 million). 6/90.

**United Nations Children's Fund (UNICEF) and United Nations Fund for Population Activities (UNFPA)**
Extending grants to improve health care facilities in poverty-stricken areas of Xinjiang Uygur Autonomous Region. $800,000. 6/90.

**United Nation Children's Fund (UNICEF) and United Nations Fund for Population Activities (UNFPA)**
Extending grant to improve health care facilities in poverty-stricken areas of Gansu Province. $50,000. 6/90.

**Austria and US**
Will fund 916-bed expansion of the Shanghai No. 1 People's Hospital. $42 million (¥200 million). 5/90.

**Japan**
Japanese government-funded hot spring hospital opened in Urumqi, Xinjiang Uygur Autonomous Region. $4 million. 5/90.

## Packaging, Pulp and Paper

### *China's Imports*

**Ingersoll-Rand Canada Inc. (Canada), a subsidiary of Ingersoll-Rand Co. (US), Dillingham Construction Ltd. (Canada), and Societe de Development Industriel du Quebec (Canada)**
Will construct pulp and paper mill funded by Canadian government loan to China. $32.3 million (C$37.5 million). 7/90.

**Kamyr AB (Sweden), a subsidiary of Kvaerner Industrier A/S (Norway)**
Will sell fiberline for unbleached paper to paper producer in Qingzhou, Fujian Province. $32.7 million (SKr200 million). 4/90.

**Celpap AB (Sweden)/Guangxi Bureau of Light Industry**
Will provide consulting services under Asian Development Bank Hexian Pulp Mill Project. $220,000. 3/90.

### *Investments in China*

**Franshion Domtany Ltd. (Hong Kong)/Shanghai Port Packing and Transportation Co., Shanghai Port Xinhua Loading and Unloading Co., and China Chemical International Storing and Transportation Co.**
The Shanghai East Packing Co. Ltd. joint venture began operation with packing capacity of 1.2 million tonnes. $2.2 million (¥10.5 million). 5/90.

## Petroleum and Natural Gas

### *Investments in China*

**Gaz de France (France)**
Set up gas utility joint venture with representative office Shooter Ltd. in conjunction with 12 other French firms. 5/90.

### *Other*

**United Nations Development Programme (UNDP)/Ministry of Geology and Mineral Resources**
Will provide technical assistance for drilling of oil wells in Tarim Basin. $5.87 million. 5/90.

## Pharmaceuticals

### *Investments in China*

**Pfizer International Inc. (US)/Dalian Pharmaceutical Factory**
Began construction on Pfizer Pharmaceutical Inc. joint venture in Dalian ETDZ, to produce antibiotics and other medicines. $35 million. 5/90.

## Ports

### *Investments in China*

**Geabulk Terminals Ltd. (Norway)/Tianjin Port**
Established Sinor Terminals Ltd. equity joint venture to increase capacity of Tianjin port to accommodate 50,000 dwt ships. $10 million. 4/90.

## Power Plants

### *China's Imports*

**BTR Silvertown (UK)**
Supplying GEC Alsthom's large generator group with high-performance unbraided PTFE hoses for use in two 900 mw turbo-generators for Guangdong nuclear power station. 3/90.

**Rotork Actuation (UK)**
Will sell "A" range double-sealed actuators for new nuclear power station in Guangdong and coal-fired power station project in Yueyang. $820,000 (£500,000). 4/90.

**NA (Japan)/China State-Controlled Coal Corp.**
Will use Japanese goverment loan to purchase mining equipment for Junggar coal field in Inner Mongolia. $220 million. 4/90.

**Elin Energie Versorgung Gesellschaft (Austria)**
Will supply generating sets and auxiliary equipment for use in thermal power plants to be located in Anshan, Benxi, and Haicheng. $29 million (ASch343 million). 3/90.

### *Investments in China*

**Changjiang Enterprise (Group) Ltd./Shantou municipal government and Shantou International Electric Power and Development Co. Ltd.**
Will invest in 100 mw thermal electric power plant. $10 million. 3/90.

### *Other*

**Hong Kong Macao International Investment Co./Tian An China Investment Co., CITIC, and China National Energy Investment Co.**
Contracted to construct the Song Yu Thermal Power Station in Xiamen, Fujian Province. $319 million (¥1.5 billion). 4/90.

**Zetec Co. (US)/China Nuclear Operating Research Institute**
Non-destructive testing joint venture contracted to inspect Dayawan Nuclear Power Station, Guangdong Province. 6/90.

## Property Management and Development

### *Investments in China*

**Westin Hotel Co., a subsidiary of UAL Inc. (US)**
Will manage Taipingyang (Pacific) Hotel, a Sino-Japanese joint venture. 5/90.

### *China's Investments Abroad*

**NA (Hong Kong)/Guangdong Enterprises (Holdings)**
Will expand hotel investments in Hong Kong. $800 million. 4/90.

## Ships and Shipping

### *China's Imports*

**Belotti Spa (Italy)/Ningbo Ports Authority**
Provided front carrier under World Bank Ningbo and Shanghai Ports Project. $2 million. 5/90.

**Wako Koeki Co. (Japan)/Ningbo Ports Authority**
Provided rubber transport containers under Asian Development Bank Ningbo and Shanghai Ports Project. $3.29 million. 5/90.

### *Investments in China*

**Bridgestone Co. Ltd. (Japan)/Shenyang Rubber Tube Factory and China Gulf Engineering Corp.**
Shenyang-Bridgestone Co. Ltd. joint venture began production of rubber port and starboard protectors. $4.4 million (J¥700 million). 6/90.

**Cargo Systems Co., a subsidiary of Orient Overseas Container Line Ltd. (Hong Kong)**
Opened offices in Shenzhen and Shanghai. 5/90.

### *Other*

**Nippon Express Co. Ltd. (Japan)/SINOTRANS**
Began cargo shipping services between China and Japan. 6/90.

## Telecommunications

### *China's Imports*

**AT&T Network Systems International (Netherlands), a subsidiary of American Telephone & Telegraph (AT&T) Co. (US)/People's Liberation Army**
Will sell telephone equipment. $5 million. 6/90.

**Alcatel Cit, a subsidiary of Generale d'Electricite SA, Cie. (France)**
Will sell telephone exchanges for 250,000 circuits in Heilongjiang Province, using French government soft loans and long-term export insurance. 5/90.

**Motorola Corp. (US)/Shandong Provincial Postal and Telecommunications Administrative Bureau**
Will import equipment for building a mobile communications network in Shandong Province. 5/90

**Standard Electrica S.A. (Spain), a subsidiary of ITT Corp. (US)**
Will install second phase of digital communications network throughout 17 cities in Sichuan Province using Spanish government soft loans. $4.9 million. 5/90.

**Telefon AB L.M. Ericsson (Sweden)**
Sold telephone equipment funded by Swedish Council for International Economic Cooperation loan to China. $142 million (SK870 million). 4/90.

### *Investments in China*

**AT&T Network Systems International (Netherlands), a subsidiary of American Telephone & Telegraph (AT&T) Co. (US)/Shanghai Optical Fiber Communications Engineering Corp. and Shanghai Telecommunications Equipment Factory**
Established joint venture to manufacture telecommunications transmission equipment. (US:50%-PRC:50%). 6/90.

### *Other*

**Barclays Bank (UK) and Wardley Ltd., a subsidiary of The Hong Kong & Shanghai Banking Corp. (Hong Kong)/CITIC Telecommunications (Holdings) Ltd.**
Extending loan to fund purchase of 20% holding in Hong Kong Telecommunications Ltd. $1.1 billion (HK$8.3 billion). 5/90.

**Cable & Wireless Hong Kong Ltd., a subsidiary of Cable & Wireless PLC (UK), Singapore Telecom (Singapore), International Digital Communications Inc. (Japan)/Shanghai Post and Telecommunications Bureau**
Will use fiber-optic undersea cable to connect Shanghai with Singapore, Tokyo, and Hong Kong. $260 million. 5/90.

## Textiles

### *Investments in China*

**Flex and Mitsubishi Corp. (Japan)/Qiaojie Industrial Co. Ltd.**
Established Xiamen Yongfa Clothing joint venture to produce casual shirts. $1.5 million. 5/90.

**NA (Japan)/Jiangsu General Silk Factory**
Established joint venture to produce silk. $4 million. (JP:50%-PRC:50%). 5/90.

**Mitsubishi Corp. (Japan) and Shiga Shoko Co. (Japan)**
Established Superior Garments Manufacturing Co. joint venture to produce pajamas for export to Japan. $1 million. 4/90.

**Zhonga Trading Company (Jordan)/Mudanjiang Woolen Blanket Plant, Heilongjiang Province**
Established Tianjin Manchester Fabric Ltd. Co. joint venture to produce blankets. $420,000. 4/90.

## Transportation

### *China's Imports*

**The Boeing Co. (US)/CAAC**
Received firm order for 33 airplanes: five 747-400s, one 747-200F freighter, four 767s, ten 757s, and thirteen 737-300s. Gave options on 36 other airplanes. $2 billion. 6/90.

**CFM International Inc., a joint venture of General Electric Co. (US) and Nationale d'Etude et de Construction de Moteurs d'Aviation S.A., Ste. (SNECMA) (France)/CAAC**
Will supply engines for 13 Boeing 737-300 airplanes. 6/90.

**Pratt & Whitney Aircraft Technical Services Inc., a subsidiary of United Technologies Corp. (US)/CAAC**
Will supply PW 4000 engines for five Boeing 747-400 and four Boeing 767 airplanes, and JT9D-7R4G2 engines for one Boeing 747-200F freight aircraft. 6/90.

**Rolls-Royce PLC (UK)/CAAC**
Will supply engines for 10 Boeing 757 airplanes. 6/90.

**Balfour Beatty Developments Ltd., a subsidiary of BICC PLC (UK); GEC Plessy Telecommunications Ltd and GEC Transportation Projects Ltd., subsidiaries of The General Electric Co. PLC (UK); and Hawker Siddley Group PLC (UK)/Peking Mass Transit Railway Corp.**
Will upgrade east-west line of Beijing metro system. $36 million (£22 million). 5/90.

**Dresser Industries Group (US)/Ministry of Machinery and Electronic Industry**
Will produce eight 154-tonne dump trucks for Dexing mine, Jiangxi Province. 5/90.

*Investments in China*

**Mitsui & Co. (Japan) and Oil Transportation Co. (Japan)/Beijing Yanshan Petrochemical Corp.**
Will establish phenol transportation joint venture. 6/90.

*Other*

**Mitsubishi Trust and Banking Corp./CAAC**
Joined consortium of 20 banks to provide one-fourth of 12-year loan for purchase of Boeing 747. Interest: 1% above LIBOR. $126 million. 7/90.

**Guinness Peat Aviation Group PLC (UK)/CAAC**
Will lease five Boeing 737-300 and five Boeing 737-500 airplanes to China Southern Airlines. Will also purchase 10 five- to seven-year-old Boeing 737-200 airplanes from CAAC to be leased to airlines in China or elsewhere. $450 million. 6/90.

## Miscellaneous

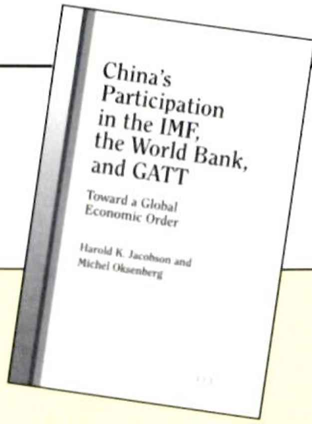
*Investments in China*

**Pacific Concord Holding (Hong Kong)/NA**
Established wholly foreign-financed department store cooperative joint venture. $19.3 million (HK$150 million). 4/90.

*Other*

**FRG**
Opened joint vocational education training center in Tianjin. $18.9 million (FRG:72%-PRC:28%). 5/90.

# 书刊介绍 Bookshelf




## *China's Participation in the IMF, the World Bank, and the GATT: Toward a Global Economic Order*

*by Harold K. Jacobson and Michel Oksenberg. Ann Arbor, MI: University of Michigan Press, 1990. 199 pp. $32.50 hardcover.*

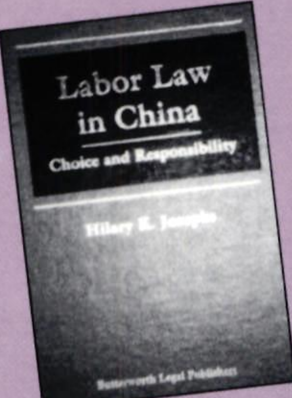
This latest volume by leading scholars at the University of Michigan provides a revealing look at the complexities of China's drive to forge relationships with the major global financial institutions, including the World Bank, the International Monetary Fund (IMF), and the General Agreement on Tariffs and Trade (GATT). The authors provide a new acronym to refer to these keystone international economic organizations—the KIEOs—but focus much of their discussion on the World Bank alone. While the academic insights will appeal to some readers, those seeking advice for business purposes will need to look elsewhere.

Based on extensive surveys of middle- and high-level Chinese officials in all the principal agencies that deal with the KIEOs, this in-depth study analyzes how—and why—in one decade China leapt from its isolationist stance in global economic matters to become a leading borrower of KIEO funds. For example, from its initial $200 million project in 1981, China's World Bank program expanded rapidly to over 69 projects by 1989, with total commitments of $7.4 billion. The book includes a useful appendix of World Bank China projects, though few specific details are offered. Researchers will also appreciate the book's bibliography of relevant World Bank reports and papers.

The authors provide details of China's involvement with the KIEOs, but stress that the reforms of the 1980s were not a result of China's involvement with the KIEOs—though certainly increased interaction with the global financial institutions supported economic and political reforms at home. Moreover, the KIEOs have helped strengthen China's administrative structures and encouraged Chinese economic and academic research institutes to take on larger roles in policy formation.

Although their manuscript was completed in the aftermath of Tiananmen, the authors venture little prognosis on the future of China's relationship with the KIEOs. There is no discussion of how and when China's activities with the World Bank and IMF are likely to resume pre-Tiananmen proportions. Nor is much information given on what China must do to become a fully participating member of the GATT. Readers curious about China's future with the KIEOs—and the role China will play in the global economic order, a theme suggested by the book's title—will find few answers here. —VL

## *Labor Law in China: Choice and Responsibility*




*by Hilary K. Josephs. Salem, NH: Butterworth Legal Publishers, 1990. 219 pp. $125 hardcover.*

*Labor Law in China* features a solid summary of one of the most important aspects of urban reform in China—the contract employment system. Author Hilary Josephs spent several years in China gathering information, interviewing labor officials and workers, and exploring contract labor regulations. Though probably more useful to academics than businesspeople, this book is highly readable, thanks to its minimal use of legal jargon.

Introduced in the mid-1980s as a cornerstone of labor reform, the contract employment system was intended to create a labor pool subject to market forces by providing workers real employment options, which would unleash worker initiative and thereby boost enterprise productivity. Although the number of contract laborers in State-owned enterprises increased from 3.5 percent to almost 10 percent from 1985-88, their impact on the labor system was not appreciable. The State still controlled contract details and many contract workers were not completely accepted in the work place due to the temporary nature of their contracts. Furthermore, lower-level bureau and enterprise cadres tended to resist implementation of the system because of its perceived threat to their political power. Significant changes in attitude will therefore be required before China's labor system can be substantially reformed.

Josephs' analysis is rounded out with appendices containing the laws—on hiring, dismissal, wages, benefits, and disputes—that govern the contract employment system. Other helpful appendices offer samples of standard employment contracts and illustrative case studies. For readers wishing to get up to speed on the role of labor law in China's reforms, this volume is a good place to start. —Joel Greene

# THE US–CHINA BUSINESS COUNCIL

**OFFICERS**
Chairman: Paul W. Van Orden
Vice Chairmen: Jack Murphy, Alexander Brody
Secretary-Treasurer: Charles F. Jacey
Counsel: Lionel H. Olmer, *Paul, Weiss, Rifkind, Wharton & Garrison*
President: Roger W. Sullivan

**BOARD OF DIRECTORS**
Ronald J. Anderson, president, Asia-Pacific Divisions, *American International Underwriters*
Donald R. Beall, chairman of the board and chief executive officer, *Rockwell International Corp.*
Theodore H. Black, president, chairman and chief executive officer, *Ingersoll-Rand Co.*
Alexander Brody, president, *Ogilvy & Mather Worldwide*
Alan Chien, chairman, *Abacus Group of America Inc.*
Charles B. Coe, president, *BellSouth International Inc.*
R. Derek Finlay, senior vice president, *H.J. Heinz Co.*
John W. Georgas, executive vice president, *The Coca-Cola Co.*
Thomas L. Gossage, president and chief executive officer, *The Aqualon Group;* senior vice president, *Hercules Inc.*
John A. Hinds, president, *AT&T International Inc.*
John C. Hunter, III, vice president and general manager, *MCC Asia Pacific, Monsanto Co.*
Charles F. Jacey, Jr., vice chairman International, *Coopers & Lybrand*
Philip H. Knight, president and chairman of the board, *Nike Inc.*
Frederick Malek, vice chairman, *Northwest Airlines, Inc.*
Patrick J. Martin, vice president and general manager, China Business Development, *Xerox Corp.*
Jack Murphy, president, chairman and chief executive officer, *Dresser Industries Inc.*
Jonathan M. Schofield, president, *United Technologies International Corp.*
Christopher A. Sinclair, president, *Pepsi-Cola International*
Don E. Six, president, *Texaco International*
James R. Spicola, president and chief executive officer, *Cargill Inc.*
David Tendler, chairman, *Tendler Beretz Associates Ltd.*
Paul W. Van Orden, executive vice president and member of the Corporate Executive Office, *General Electric Co.*
Gary K. Willis, president and chief executive officer, *The Foxboro Co.*
Christopher H. Phillips (Honorary), retired president, *US–China Business Council*

**WASHINGTON STAFF**
President: Roger W. Sullivan
China Business Review: Pamela Baldinger
Publications: Madelyn C. Ross
Management and Budget: Richard L. Peterman
Research: David L. Denny

**Address**
1818 N Street, NW, Suite 500
Washington, DC 20036 USA
Telephone: (202) 429–0340
Fax: (202) 775-2476
Telex: 64517 NCUSCTUW

**BEIJING OFFICE**
Director for China Operations: John Frisbie
CITIC Building, Suite 22C
Telephone: 5002255, ext. 2263, 2266
Cable: USCHINTRAD
Telex: 22637 NCPEKCN
Fax: 512-5854

## US GOVERNMENT OFFICES IN CHINA

**EMBASSY**
Ambassador: James R. Lilley
Deputy Chief of Mission: Lynn B. Pascoe
Agricultural Counselor: Edwin A. Bauer
Commercial Counselor: Timothy P. Stratford
Commercial Officers: Dennis Barnes, William Brekke, Alice Davenport, Jeffrey Willis
Economic Counselor: Steven A. Schlaikjer
3 Xiushui Bei Jie
Jianguomenwai, Beijing
Telephone: 532–3831
Telex: 22701 AMEMB CN
Fax: (861) 532-3297

**CHENGDU CONSULATE GENERAL**
Consul General: Marshall P. Adair
Deputy Principal Officer: Kenneth Jarrett
Jinjiang Hotel
180 Renmin Road
Chengdu, Sichuan
Telephone: (8628) 24481
Telex: 60128 ACGCH CN

**GUANGZHOU CONSULATE GENERAL**
Consul General: Dennis Harter
Deputy Principal Officer/Economic Section Chief: John J. Tkacik, Jr.
Agricultural Officer: Philip A. Shul
Commercial Officers: Todd N. Thurwachter, Jonathan Marks
Economic Officer: Theodore Mann
Dongfang Hotel
Telephone: 669–900
Telex: 44439 GZDFH CN
Attn: USA Consulate
Fax: (8620) 66-6409

**SHANGHAI CONSULATE GENERAL**
Consul General: Frank P. Wardlaw
Political/Economic Section Chief: John J. Norris
Commercial Section Chief: Nora Sun
1469 Huaihai Zhong Lu
Telephone: 336–880
Telex: 33383 USCG CN
Fax: (8621) 433-4122

**SHENYANG CONSULATE GENERAL**
Consul General: Morton J. Holbrook, III
Economic Officer: Stephen R. Fox
Commercial Officer: Richard Mohr
No. 40, Lane 4, Section 5
Sanjing St, Heping District
Shenyang, Liaoning
Telephone: 290038
Telex: 80011 AMCS CN
Fax: (8624) 29-0074

**HONG KONG CONSULATE GENERAL**
Consul General: Richard Williams
Deputy Principal Officer: David G. Brown
Agricultural Officer: Phillip C. Holloway
Commercial Officers: Ying Price, Ned Quistorff
Economic Section Chief: Gilbert J. Donahue
26 Garden Rd.
Telephone: 5–239011
Telex: 63141 USDOC HX
Fax: (852) 877-2055

## PRC GOVERNMENT OFFICES IN THE US

**EMBASSY**
Ambassador: Zhu Qizhen
Minister Counselor for Commercial Affairs: Huang Wenjun
2300 Connecticut Avenue, N.W.
Washington, DC 20008
Commercial: (202) 328–2520 through 2527
Visas: (202) 328–2517
Telex: 440038 PRC UI
Commercial: 440673 PRCC UI

**CHICAGO CONSULATE GENERAL**
Consul General: Deng Chaocong
104 S. Michigan Avenue, Suite 1200
Chicago, IL 60603
Administration: (312) 346-0287
Visas and Consular Affairs: (312) 346-0288

**HOUSTON CONSULATE GENERAL**
Consul General: Ni Yaoli
Commercial Consul: Wang Yixuan
3417 Montrose Blvd.
Houston, TX 77052
Commercial: (713) 524–4064
Visas: (713) 524–4311
Telex: 762173 CHINCONSUL HOU

**LOS ANGELES CONSULATE GENERAL**
Consul General: Ma Yuzhen
501 Shatto Place, Suite 300
Los Angeles, CA 90020
Administration: (213) 380-3105
Visas: (213) 380-2506 & 2507
Fax: (213) 380-1961

**NEW YORK CONSULATE GENERAL**
Consul General: Weng Fupei
Commercial Consul: Shi Jingxin
520 12th Avenue
New York, NY 10036
Commercial: (212) 330–7428 & 7427
Visas: (212) 330–7409
Telex: 429134 CGCNY
Fax: (212) 502-0248

**SAN FRANCISCO CONSULATE GENERAL**
Consul General: Zhao Xixin
Commercial Consul: Lu Zuwen
1450 Laguna Street
San Francisco, CA 94115
Commercial: (415) 563–4858
Visas: (415) 563–4857
Telex: 4970121 CCSF

Asia Series

## *You can do business in Japan without shelling out a fortune.*

For many companies, the biggest barrier to new markets has been the cost of business trips. Restaurants can be expensive, and even the smallest accommodations may carry oversized bills. Yet those willing to be a little adventurous will find that traveling comfortably in Japan doesn't require packing a suitcase full of yen.

### *Hop on the bus.*

A $20 bus ride from Narita Airport may not strike you as a bargain, but compared to a $150 taxi, it is. The buses marked "Airport Limousine" stop at all the major hotels in Tokyo.

### *Sleep cheap.*

Business hotels are a fairly new phenomenon. Catering primarily to Japanese businessmen, they're clean, functional, and conveniently located. Although vending machines replace amenities like room service, at $40 to $50 a night these hotels are a sound investment. Two major chains are the Tokyu Inn (tel. 03/406-0109) and the Washington (tel. 03/434-5211).

### *Food for naught.*

It should come as no surprise that you'll save money eating where the locals eat. Good and reasonably priced restaurants can be found in department stores and the basements of office buildings. At lunch, ask for *teishoku*. It means special of the day, and includes rice, miso soup, salad, meat or fish, and dessert—all for around five dollars. *Ramenya* and *sobaya* (noodle shops) are perfect places for a quick and tasty meal.

### *Northwest notes.*

Since your time is money too, we make it as quick and easy as possible for you to get to Japan, by offering daily nonstops from the most U.S. cities. So you can count on arriving when you want, rested and ready to do business. And we give you something else no other U.S. airline can: the knowledge, understanding and insight that comes from over 40 years of helping people do business in Asia. For international reservations, call your travel agent or Northwest at 1-800-447-4747. To find out more about doing business in Asia, call 1-800-553-2215, ext. 183.



NORTHWEST AIRLINES