THE CHINA BUSINESS REVIEW
SEPTEMBER-OCTOBER 1992
VOLUME 19, NUMBER 5

DEVELOPMENT vs THE ENVIRONMENT

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Photo courtesy of Vanessa Lide Whitcomb

China Announces New Investment Policies

The official rhetoric surrounding Beijing's current reform drive may suffer from hyperbole, but the recently announced investment liberalizations do herald a genuine opening of China's economy to non-manufacturing foreign businesses.

In the retail sector, for instance, foreign companies are now permitted to establish department stores on a case-by-case basis. The basic framework requires that foreign products not exceed 50 percent of the store's sales volume, and that the enterprise's import and export levels remain even to balance foreign exchange. The first approved joint-venture department store (involving Japan's Yaohan chain) is under construction in the Pudong district of Shanghai and a second agreement has apparently been signed by a Hong Kong retailer to establish a store in Beijing. According to a recent Ministry of Commerce report, 12 other cities will be allowed to discuss joint-venture retail deals.

Accounting, consulting, and other service industries are also being opened to foreign participation. Three joint-venture accounting firms have already been approved and more approvals are expected. People's Bank of China (PBOC) Vice Chairman Chen Yuan revealed this spring that Beijing is considering allowing foreign insurance companies to operate in China; New York-based American International Group (AIG) is widely reported to be negotiating to establish a joint venture or wholly owned insurance company in Shanghai.

The real estate sector has seen significant foreign activity in recent months. Hong Kong investors have been the most active players so far, buying up land-use rights which are appreciating rapidly. Commercial and industrial property prices in Shenzhen, for example, increased nearly 200 percent during 1991. Foreign property development is also on the rise, led by the Kumagai Gumi Co.'s plans to develop a 30 sq km area in the Yangpu district of Hainan Island.

Foreigners involved in banking and trade are also benefitting from the liberalization drive. Supposedly, foreign banks will soon be allowed to open branches in Guangzhou, Tianjin, Dalian, Nanjing, Fuzhou, Ningbo, and Qingdao, though they will still be restricted from conducting *renminbi* business. Trading companies, meanwhile, will be allowed to operate on an experimental and restricted basis in the recently established free-trade zones. Japanese-based C. Itoh & Co. Inc. has already been approved to operate in Pudong, and Mitsubishi is reportedly discussing a similar deal.

Over the past few months, Beijing has also extended investment promotion incentives to a number of interior and border areas. Since the spring, four northeastern border towns—Heihe, Suifenhe, Hunchun, and Manzhouli—have been opened for foreign trade and investment. In June, 49 Yangtze River and interior cities were permitted by the central government to offer foreign investors preferential terms similar to those offered in the open coastal cities. Beneficiaries of this latest action include Nanjing, Wuhan, and Chongqing, but it remains unclear whether these incentives will be sufficient to convince foreign investors to overlook the numerous infrastructure and other problems found in interior areas.

—*Richard Brecher*

Tourism Industry Picks up Speed

After three long, dry years following the June 1989 crackdown in Beijing, China's travel industry has landed on its feet. Statistics released by the National Tourism Administration (NTA) indicate that total visitor arrivals in 1991 hit nearly 34 million, a 5 percent increase over the previous high in 1988. NTA, which has proclaimed this year "Visit China '92," is optimistic that 1992 tourism receipts will rise 12.5 percent over the record $2.84 billion earned last year.

In June, NTA and the Beijing municipal government co-sponsored the China Travel Fair '92, a four-day extravaganza aimed at foreign travel agents and tour operators. According to the fair's organizers, 61 US firms were among the over 850 foreign travel companies participating, up slightly from the 604 foreign firms who attended the 1990 Shanghai travel fair. The number of foreign attendees, however, seemed small in contrast to the vast crowds of local spectators and the large number of staff manning booths from over 90 local tourism enterprises.

Foreign joint-venture hotels, many of which were also represented at the fair, are still feeling the pinch of the recessions in key foreign economies. Though several foreign hotel managers seemed encouraged by the crowds at the fair and the 1991 tourism statistics, many noted that average hotel occupancy rates in China are still far from optimal.

An increase in flights to China may boost the business of these hotels, however. US carriers Northwest Airlines and United Airlines, for example, added extra routes to Beijing and Shanghai this summer, while the Chinese air industry is aggressively seeking new passenger routes. Air China has added 64 internal flights to key tourist cities, and announced in August that it will join forces with the China International Travel Service to launch a new airline to deal exclusively with tourist travel. China Tourist Airlines Ltd. is scheduled to begin operations by year's end.

— *VLW*

Reforms Give Rise to New Government Office

Beijing's "reformist" camp has been pushing for significant government restructuring in an apparent effort to recast the State's role in the economy. One sign of this effort is the growing power of Vice Premier Zhu Rongji's newly christened State Council Economic and Trade Office (ETO; formerly known as the State Council Production Office), which has been seeking greater responsibilities in areas traditionally held by the State Planning Commission (SPC), the Ministry of Foreign Economic Relations and Trade (MOFERT), and the ministries of Materials and Commerce.

The early summer announcement of the renamed ETO stopped short of delineating its precise powers, as its new role has not yet been fully decided. However, the office is already assuming the lead role on economic policy and performance, including reform of State enterprises and development of China's stock markets. In addition, the ETO has now assumed responsibility for approving projects to upgrade existing factories, a process formerly undertaken by the SPC. Zhu's office has also had an ad hoc role in some import decisions and foreign investment approvals.

If the ETO is successful in garnering expanded powers, it will probably be converted into the State Economic and Trade Commission, most likely at next spring's National People's Congress (NPC) meeting. The conversion would put the change-oriented office on at least equal footing with the more conservative SPC, which, according to some, is likely to be trimmed back in influence and resources as well as personnel. One State Council source says the creation of the ETO (and eventually the ETC) is really a return to a pre-1988 proposal—to phase out the industrial ministries and create a Japanese-style MITI-like ministry to run the economy.

As for the ETO's leader, Chinese pundits continue to speculate that Zhu Rongji could be bumped up to premier at the 14th Party Congress. At minimum, he will continue as vice premier, and will likely gain a seat on the Politburo. *—John Frisbie*

Short Takes

China accedes to Berne Convention

On July 31, China officially joined the Universal Copyright Convention and must now abide by international copyright regulations. As part of the agreement, China will pay for foreign copyrights with foreign currency.

Pay hike for FESCO workers

Foreign representative offices and Chinese workers alike have long grumbled about the payment system of official Chinese employment broker Foreign Enterprise Service Corp. (FESCO), which traditionally distributed to Chinese employees only 20-30 percent of the fees collected from their foreign employers. However, FESCO Beijing recently announced that it will now provide Chinese staff with 40-45 percent of these fees. In turn, most FESCO-provided subsidies and benefits (except medical) have been eliminated.

US, China Sign Conciliation Agreement

The American Arbitration Association (AAA) and the Beijing Conciliation Centre of the China Council for the Promotion of International Trade (CCPIT) signed a joint conciliation agreement to offer their services in Beijing and throughout the United States to help Chinese and US businesses settle disputes.

The new agreement, signed in late May, is unlikely to help ease the rash of cases being filed for arbitration with the China International Economic and Trade Arbitration Commission (CIETAC), also administered by CCPIT. Conciliation hearings—unlike CIETAC findings—are purely voluntary, and their results are non-binding, making them attractive to Chinese parties. Foreign parties though, generally prefer to seek binding arbitration rulings. Since even these can be difficult to enforce in China (*see The CBR*, May-June 1992, p.6), however, few foreign companies are likely to turn to conciliation.

China's capital grows expensive

Beijing has made the "top twenty" list of most expensive cities for foreigners, according to a recent report by Corporate Resources Group, a Geneva consultancy. Beijing and Vienna tied for 19th place in a spring price survey of 151 products and services, including food, clothing, and transportation, but excluding housing.

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The Council's Investment Initiative

Our suggestions on how to improve China's investment climate

***Editor's note:** Over the past six months, the US-China Business Council has conducted extensive research to assess the state of China's investment climate. Our findings, based on surveys, roundtables, and individual consultations with US investors in China, have been compiled into a report that has been presented to leading Chinese authorities. In late September, Council Chairman of the Board Jonathan M. Schofield and Council President Donald M. Anderson will travel to Beijing to discuss these findings with top officials. Their goal is to clarify to the Chinese the difficulties confronting foreign investors in China, and to offer constructive suggestions on how to overcome these obstacles and improve the overall investment climate.*

Since the Joint Venture Law was issued in 1979, China has made great strides in developing its foreign investment policies and improving the operating environment for foreign-invested enterprises (FIEs). The results are impressive: by the end of 1991, China had approved more than 40,000 foreign investment contracts with a total value of over $52 billion. American investors constitute the second largest source of foreign direct investment, with more than 2,000 contracts valued at nearly $5 billion committed through 1991.

However, until now, most foreign investment has been concentrated in small, low-technology projects, many of which are low value-added processing and assembly projects relocated from Hong Kong, Taiwan, and other Asian countries. Large, advanced-technology projects in basic industries have been comparatively few in number. Although US companies proportionately invest more in larger, advanced technology projects than investors from other countries do, US firms, too, have been cautious in making these types of investments.

This caution is due to a number of problems in China's investment environment. In the interest of exploring ways to resolve these problems, member companies of the US-China Business Council recently held a series of meetings to discuss China's foreign investment environment and ways in which it could be improved to the mutual benefit of China and American investors. Approximately 75 companies participated in these discussions; nearly all of them were multinationals with investment experience in many countries. Some of these companies already had operational investments in China, while others had not yet found the right opportunity to invest. Participants included US-based corporate executives responsible for investment decisions and strategy, as well as the general managers of projects in China.

US investors constitute China's second largest source of foreign direct investment, with more than 2,000 contracts valued at nearly $5 billion.

This paper summarizes the views of these companies. It does not address long-term, structural problems such as infrastructure bottlenecks or market segmentation, which are very real disincentives to investment in China, because we are confident that the Chinese government will solve these problems over time. Instead, the paper focuses on key issues that the US-China Business Council believes are solvable in the shorter-term through policy adjustments. Progress in these areas would lead to an increase in the advanced technology and industrial foreign investment that China desires. Specifically, we propose the following:

- Improve the regulatory environment;
- Better protect intellectual property rights;
- Increase the availability of foreign exchange;
- Reduce market access restrictions and production controls;
- Eliminate arbitrary fees;
- Equalize treatment for FIEs and State-owned enterprises;
- Expand the scope for FIE operations; and
- Further improve labor management.

We hope that Chinese policymakers find these views helpful when considering new policies to further improve China's investment environment.

Improving the regulatory environment

The foremost difficulty confronting US companies investing in China is the uncertain regulatory environment. Companies cited the lack of transparency and clarity of laws and regulations, the lack of uniformity and consistency in interpreting and implementing rules and regulations, and bureaucratic interference in FIE operations as obstacles inhibiting investment or preventing the successful operation of existing investments. The issue of bureaucratic interference is one faced by US and Chinese enterprises alike, and we are pleased that in the past few months the Chinese government has clearly stated its intentions to remove administrative interference in enterprise operations. Article 15 of the 1986 State Council Provisions to Encourage Foreign Investment clearly states that FIEs are to have autonomy in the management of their operations; we would like to see this article more effectively implemented.

Solving regulatory problems is critical because foreign investors need regulatory consistency and certainty to plan and operate investment projects. Uncertainty and inconsistency create risk, and increased risk inhibits investment. Companies must be aware of all the rules that are applicable to their projects and need to feel confident those rules will be consistently and uniformly applied.

We recognize that the Chinese leadership has done much in the last 13 years to formulate investment regulations, and that it is aware of and working on problems associated with implementing these regulations. We encourage China's central and local government departments to continue this important work, and offer these further suggestions:

• **Make public and readily available a comprehensive and up-to-date set of all central government rules, regulations, directives, and guidelines** that apply to the establishment and operation of foreign investment projects in China. Encourage localities to publish all additional local regulations that can affect any aspect of an investment project.

• **Eliminate all unpublished internal rules and regulations.**

• **Continue to clarify existing laws, regulations, measures, and notices.** Publish administrative guidelines and court opinions that clarify ambiguous and disputed points of law pertaining to foreign business transactions.

• **Publish clear guidelines on the scope of authority and the duties of various government departments** with respect to FIEs.

• **Establish a clear, impartial, and effective channel for resolution of disputes related to government organs.** Publish clear procedural guidelines for appealing bureaucratic decisions.

The foremost difficulty confronting US companies investing in China is the uncertain regulatory environment.

Strengthening protection of intellectual property

Lack of adequate intellectual property protection has limited the level of technology US investors have been willing to introduce into China. For example, insufficient patent protection has inhibited the transfer of advanced chemical and pharmaceutical technologies, while lack of software protection has inhibited investment and technology licensing by computer companies and other manufacturers for whom software is an integral part of their products. Inadequate recognition and protection of confidential information disclosed during negotiations has also hindered the licensing of advanced processes and equipment, as has failure to protect the "trade dress" (appearance) of industrial products from look-alikes.

The Chinese government is well aware of these problems and is taking positive steps to solve them. The January 1992 Sino-US Memorandum of Understanding on Intellectual Property Protection is an important step in this regard and will help spur advanced-technology investment from the United States. We encourage the Chinese government to vigorously implement this agreement and to educate and gain the support of central and local departments involved in protecting intellectual property. We further make the following recommendations:

• **Provide clear procedures for holders of intellectual property rights to exercise their rights and resolve disputes,** and ensure that the new administrative procedures providing "market exclusivity" to US patent holders of pharmaceutical and chemical products are adequately enforced.

• **Clarify, develop, and publish rules for determining damages.** Fines should be sufficient to compensate the plaintiff and deter further acts of infringement.

• **Develop an effective means for enforcing judgments in intellectual property rights disputes.** Local authorities often protect their own enterprises if the plaintiff is from another locality.

Increasing the availability of foreign exchange

Over the last few years foreign exchange balancing for FIEs has become easier, primarily due to the growth in the number and trading volumes of swap centers. However, balancing foreign exchange is still one of the greatest concerns of American investors, and the limited options for earning foreign exchange in China end up discouraging investment.

Foreign exchange adustment—or "swap"—centers cannot provide a long-term, dependable solution to foreign exchange balancing problems because an individual center may not have sufficient transaction volume to support a large project's needs, or, as we have seen again recently, because swap center rates may be significantly higher than the official exchange rate. Selling products to the domestic market for foreign exchange is of limited use as a balancing method, as only a relatively small number of customers in China have access to hard currency. Exporting, similarly, is feasible only for some projects. With so few avenues available to earn significant amounts of hard currency, China's foreign exchange balancing requirements effectively prohibit investment in large, capital-intensive projects, and tend to push foreign investors toward smaller, downstream projects with lower production volumes that are not dependent on economies of scale.

Of course, the best solution would be to make the *renminbi* a freely convertible currency. We are encouraged by recent comments by the director of the State Administration of Exchange Control that a freely convertible currency is in fact China's long-term goal. In the meantime, however, there are measures that could be adopted to ease foreign exchange balancing problems for foreign investors that would encourage more foreign investment, and that would preserve China's interest in maintaining adequate supplies of foreign exchange. These include:

• **Relax the export requirements for FIEs in industries in which China wishes to attract investment.**

• **Allow at least partial convertibility of *renminbi* for investors in key projects**

and industries, with such approval expressly written into FIE contracts. This would provide key foreign investors a predictable and reliable source of foreign exchange.

- **Permit more broadly the establishment of "special foreign exchange evidence accounts,"** which allow multinational companies to balance foreign exchange between investment projects in, exports to, and procurement from China.
- **Standardize the operational rules and regulations of swap markets.**
- **Unify regional swap centers into a nationwide market for foreign exchange,** thereby increasing the liquidity of individual markets. Currently, FIEs tend to be restricted to trading at their local swap centers, a practice that penalizes FIEs in locations with small swap center volumes.
- **Have existing swap centers regularly publish information on trading volumes** so that investors know how much foreign exchange is available.
- **Introduce forward or future foreign-exchange trading contracts** as a balancing mechanism so that FIEs can manage their foreign exchange balancing with greater predictability and certainty.

China's foreign exchange balancing requirements effectively prohibit investment in large, capital-intensive projects.

Removing market access barriers and production controls

Many companies with advanced technology are interested in investing in productive enterprises in China to sell products to the domestic market. But even if they are able to meet their foreign exchange needs, these firms often face barriers to market access. For example, many FIEs face administratively determined production controls such as import license requirements for imported components, annual approval of production volumes by government departments, and limited access to in-plan allocations of critical inputs at State-controlled prices. Such controls prevent investment in large, capital-intensive projects that require economies of scale to lower production costs and large sales volume to justify the capital outlay. Such economies of scale are also essential for competing in international markets.

We recommend the removal of administrative controls on FIEs, and advocate letting the market determine production volumes and levels of domestic sales. We believe increases in production volume will stimulate localization, which, in turn, will stimulate the development of China's economy, technology base, and international competitiveness.

Eliminating arbitrary fees

FIEs, like domestic enterprises, face the problem of arbitrary fees imposed by various local government departments. In addition, many FIEs are asked to pay in foreign exchange fees that domestic enterprises pay in *renminbi*—telecommunications installation and user fees, for example. Moreover, FIEs are often assessed charges higher than those billed to State enterprises.

Article 16 of the 1986 State Council Provisions to Encourage Foreign Investment specifically prohibits the indiscriminate levying of charges on FIEs. We urge that this article be implemented fully, and that clear guidelines be given to local government departments to this effect. We also urge that the channel for appeal and resolution described in Article 16 be made more effective.

We understand that the central government is currently considering a notice that will prohibit charging FIEs fees in foreign exchange that domestic enterprises pay in *renminbi.* We urge that this notice be issued and implemented. We hope that the notice will also stipulate that fees charged to FIEs should be equivalent to those charged to State enterprises.

Equalizing FIE and State enterprise treatment

Much has been said lately about "leveling the playing field" between State enterprises and FIEs. Chinese officials and policymakers have announced that State enterprises will be given more autonomy in management and personnel issues and will enjoy the same low tax rates as FIEs. US investors support these moves to revitalize China's domestic industry.

However, these moves may not "level" the field—they may in fact tilt it in favor of State enterprises, which already receive such preferential treatment as priority access to loans and low, State-priced raw materials. FIEs can rarely obtain such priority access to raw materials and invariably have to pay higher prices, even if the materials are sourced in China. In some cases, these China-sourced materials must be paid for in foreign exchange. Often, FIEs must import the materials, which makes it more difficult for these enterprises to balance foreign exchange. State enterprises also receive favorable customs treatment, such as customs duty reductions or exemptions on imported equipment and materials, and have greater access to the domestic market than FIEs do.

FIEs are approved by the Chinese government, have Chinese legal person status, pay taxes, and employ workers. Fair competition between all Chinese enterprises—including FIEs—is critical if China wishes to foster the development of producers capable of competing in world markets. We are pleased to hear recent central government announcements that foreign companies will be allowed to participate in service industries and will be encouraged to compete with domestic companies to improve service and efficiency. We hope that restrictions on competition will also be relaxed in manufacturing industries.

Expanding the scope of FIE operations

Increasing the types of activities foreign companies may engage in would attract investment and bring additional benefits to China. Types of operations to consider include:

- **Expand development of fully integrated companies.** MOFERT has begun to develop a policy with regard to umbrella companies that would allow foreign firms to combine investment, manufacturing, marketing, distribution, service, and maintenance operations. The formation of umbrella companies would allow foreign investors to better coordinate and integrate multiple investment projects as their stakes in China grow.
- **Broaden the scope of operations of service-oriented companies.** Foreign banks, consulting firms, accounting firms, insurance companies, and law firms provide vital support to foreign

investors. We encourage the revision of operating restrictions on these companies to allow them to improve their ability to support foreign investments and thereby boost confidence in China's investment climate.

The recent approval of several joint-venture accounting firms is a notable success in this regard and we hope that more such approvals will be forthcoming. We also applaud the decision to allow foreign banks to open branch offices in Shanghai, and hope that they will be permitted to operate in other cities as well in the near future. We further recommend that these branches be permitted to engage in *renminbi* business, which would enable them to increase their business to self-sustaining volumes and would improve China's overall banking services. Finally, we wish to express our concern that the new regulation governing foreign law offices in China is not interpreted to restrict foreign law firms from advising foreign investors and other clients on Chinese law and practice.

• **Allow wholly foreign-owned (WFOE) maintenance operations** so that foreign companies can better service and repair the equipment they sell in China. These companies should be permitted to charge *renminbi*, which would make it easier for Chinese enterprises to utilize their services. WFOE maintenance companies would also better enable Chinese enterprises to keep their foreign equipment in peak operating condition.

Improving labor management

Labor reforms have had a very positive impact on China's investment environment. Incentive pay schemes, training by foreign companies, and FIE autonomy in labor and wage decisions have led to improved productivity and performance. However, problems remain. A 1990 Ministry of Labor opinion calling for wage ceilings has reintroduced labor bureau interference in the wage-setting process; wage caps hamper the ability of FIEs to recruit, retain, and encourage workers and managers. These limits make it particularly difficult for high-technology projects that require highly skilled workers to compete with representative offices, which are not subject to wage ceilings.

We understand that China is currently drafting a new labor management regulation that will deal with this issue. We encourage China's leaders to use this regulation to unequivocally reconfirm FIE autonomy in labor matters, including the hiring and transferring of personnel and the setting of their wages. Such freedoms are standard practice in other countries that compete with China for investment, and any restrictions on these freedoms will adversely affect one of the bright spots in China's efforts to attract foreign investment.

Preparing for the 21st century

In 13 short years, China has made giant strides in developing an attractive operating environment for foreign direct investment. Such steps have resulted in a rapid increase in the number of foreign investment contracts signed. However, more could be done to promote advanced-technology investment in priority sectors and to expand the scope and quality of foreign investment in general.

This paper has focused on some of the most important problems and recommends possible ways to overcome them. Each of these recommendations is presented in a spirit of cooperation and mutual benefit and is offered in an effort to make China's investment regime consistent with international practice. The US-China Business Council welcomes the opportunity to further explore in detail each of the ideas addressed in this report and to hear the views of China's foreign investment policymakers on these matters. 完

我会活动 Council Activities

Council Hosts Chinese Auto-Buying Delegation

The Council played a key role in arranging the July visit of a high-level Chinese delegation that purchased $130 million worth of automobiles from the "Big Three" auto manufacturers. Council staff helped arrange meetings between the Chinese group—which included representatives of China's State Planning Commission (SPC), Ministry of Foreign Economic Relations and Trade (MOFERT), China National Automotive Industry Company (CNAIC), and China National Vehicles Import-Export Co.—and top executives of Ford Motor Co., General Motors Corp., and Chrysler Corp. Council Business Advisory Services Associate Michael Wall accompanied the 30-member delegation on their tours of auto assembly plants and parts suppliers in Chicago and Detroit.

Following the contract signing ceremonies July 28, the delegation arrived in Washington, DC, to meet with US government officials and members of the business community. The Council hosted a luncheon for delegation members at which Council President Donald M. Anderson lauded the mission's success, noting that the delegation's purchases would help reduce China's trade surplus with the United States. Delegation leader Gan Ziyu, vice chairman of China's State Planning Commission, praised the Council as an "old friend" that has been very helpful in promoting the US-China commercial relationship.

Throughout their visit, the delegation stressed that though its sole purpose was to conclude the purchase of 7,000 vehicles and components, the buying mission represented another step in increasing cooperation between the auto industries of the two nations. During the luncheon, members of the delegation emphasized the success of foreign auto ventures in China, saying they looked forward to more investment in the sector, especially in the area of auto components.

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Modernizing China's Managers

The State education system is straining to adapt to China's changing economy

Jan Borgonjon and Wilfried R. Vanhonacker

Finding skilled local managers is a key task for all foreign-invested enterprises (FIEs) in China. However, the traditional functions of Chinese managers tend to clash with the new challenges presented by economic modernization, creating gaps between traditional training and needed skills. Though the Chinese educational system is now paying greater attention to strengthening management training, shortages of Chinese personnel experienced in advanced western practices will likely continue for some time. Foreign firms with strategic commitments to China will therefore find it increasingly imperative to take an early, active approach to building a qualified local management force.

The old style...

For the most part, managers in China's centrally controlled economy were expected to be careful implementors of State-defined plans for their particular enterprises. Their jobs focused on meeting set production goals and maintaining the engineering techniques necessary to ensure fulfillment of those quotas. Sourcing and sales were of no concern—the central plan guaranteed both the delivery of inputs and a set price for all the venture's products. State enterprise managers also had extensive social, political, and ideological responsibilities: they were to be the "ears, eyes, and mouth" of the Party in the workplace (*see The CBR*, November-December 1988, p.36).

Chinese managers in the industrial sector have had to change their orientation 180 degrees.

Since 1984, however, economic reforms in the industrial sector have provoked dramatic changes in the work environment of most Chinese enterprises. Increased autonomy, competition, and uncertainty have put considerable pressure on Chinese managers, who now need a totally new set of skills to be successful. Their performance no longer depends as much on political or technical aptitude as on the ability to pinpoint market opportunities, to solicit financing, and increasingly, to match competition from foreign enterprises. In a traditional planned economy, managers took a re-active approach: the customers came to them. In a market economy, managers must be pro-active: they have to identify and appeal to consumers. Simply put, managers in the industrial sector have had to change their orientation 180 degrees.

...and the new

China's top leader, Deng Xiaoping, recognized the need to revitalize China's management system early on. In 1978, he explicitly noted management as an area where China should learn from foreign countries. Since then, the Chinese government has made considerable efforts—especially during 1982-85—to raise the educational level of enterprise managers. While these measures have yielded positive results, attempts to import "modern management" from developed countries have been less successful.

In China, "modern management" is understood as a body of quantitative techniques, not as a way of thinking and acting, as it is usually perceived in the West. This concept of management is rooted in the nation's educational, economic, and political systems, which emphasize the development of the hard sciences and the acquisition of advanced technology. As a result, China's educational system encouraged Chinese managers to adopt an

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engineering approach to management in which physical output is stressed. Thus, Chinese managers today tend to feel most comfortable with a quantitative approach to production.

"Soft" concepts of management, such as marketing and consumer behavior, have been less easily integrated into Chinese thinking. In part, this is because such concepts are perceived by Beijing as a threat to Party control and communist ideology, since the consumer, not a central plan, is considered the driving force behind production. At the micro level, western management's emphasis on incentives and personal performance threatens Party control within the enterprise.

Chinese efforts to import western or other modern management techniques similarly have concentrated on the more tangible, quantitative, production-related aspects. "Bourgeois" topics such as marketing or consumer behavior have been in less demand.

Deng Xiaoping's current drive to deepen economic reforms, however, might result in a partial or full endorsement of the teaching of soft subjects, which have been omitted from

Merging Management Methods

Shanghai Volkswagen Automotive Co. Ltd., a joint venture between Shanghai Automotive Industrial Corp. and Volkswagen AG, began producing Santana automobiles in China in 1985. The venture, which employs 5,000 people, now produces 65,000 cars each year. Fang Hong, senior engineer and managing director at the Shanghai factory, discussed management issues with Associate Editor Vanessa Lide Whitcomb.

CBR: ***What are the biggest differences between German and Chinese management styles?***

Fang: Germans have their own style of management. And we Chinese, of course, have our own management style for State enterprises. We have to adapt their methods and combine them with our own system. As Shanghai Volkswagen is still a Chinese enterprise—even if it is a joint venture—we have to follow existing regulations, and must report on our operations to the Chinese authorities, for example. At the same time, we have to give daily business data to Volkswagen's headquarters in Germany. Though the accounting requirements are quite different, we still have to report to both, and we have to modify our management system from time to time to accommodate such needs.

CBR: ***Compared with managing a traditional State enterprise, what has been the biggest change in managing a joint venture?***

Fang: When we set up our joint venture, the first priority for us was to change the wage and salary system. I think that's the main difference. Traditionally, in Chinese factories, older people were paid more than younger people for doing the same job, and, if you had a job, it did not matter whether or not you were a good worker.

But at Shanghai Volkswagen, we pay for the job and will only promote according to performance. If workers do well, they will get more wages, and will stand a better chance of being promoted.

CBR: ***And are workers responding to the blend of Chinese and German management styles?***

Fang: I think so. I believe it is quite natural because human beings—I don't mean just Chinese—want more opportunities. Of course, it's a challenge for the workers. They have to work hard, but if they perform well and are reliable, they will get more money and more responsibilities.

Our main problems are hiring and firing. Though our turnover rate is very low, Shanghai Volkswagen is still not so attractive to qualified people because some foreign enterprises offer higher wages and many qualified university students want to go abroad. A second problem is the firing of people. Unless he or she makes a big mistake, a person cannot be fired from the company, which means we usually must find lower positions for workers who don't perform well.

CBR: ***Are there areas where German and Chinese management styles clash?***

Fang: Right from the beginning there were some contradictions because the joint venture wanted to keep all the work in line with German standards. The venture's Chinese partner thought the first priority should be to localize parts and components, but the German side put quality first. In the end, it took us five years to localize production.

CBR: ***In cases like this, where there were different opinions, how was a decision reached?***

Fang: Shanghai Volkswagen has an executive management committee made up of two Chinese and two Germans. For every important decision, there must be unanimous agreement. If there is a difference of opinion, we cannot move on that issue.

CBR: ***What sort of training does Shanghai Volkswagen provide?***

Fang: We recruit young people from high school and give them a three-year training course, which includes classroom lessons and practical training in areas such as machinery, welding, and forging. After this training, they are qualified to be workers on the production line. Secretaries and sales staff get two years of training.

During the last six years, we've also sent a number of workers to Germany for one or two years' training in management. We've sent employees to other foreign countries, such as Brazil and Japan, as well. When they return, we put them in positions such as assistant to the manager to get some practical experience. If their performance is really good, they are promoted to managerial positions. Some of our young employees also attend management training courses at colleges and institutes in China. Our motto is "train the people, organize the people, motivate the people."

China's classrooms over the last few years. If approved, these aspects would have to be introduced slowly into Chinese curricula, for it will take some time for the people and institutions involved to come to a different understanding of modern management.

Strong management skills are seen as a ticket to a powerful and lucrative career.

The MBA craze

Regardless of the government's stance, public interest in pursuing studies in the field of management—especially for the degree of Master of Business Administration (MBA)—is strong and increasing. For example, the China Europe Management Institute (CEMI) in Beijing, a training center jointly funded by the European Community and the Economic and Trade Office of the State Council (ETO), had 1,500 candidates express interest in the 40 available slots in its 1991 MBA program.

Major Foreign Management Programs in China

NAME	FOREIGN PARTNER	CHINESE PARTNER	NATURE OF COOPERATION	COOPERATION PERIOD
Canada/China Enterprise Management Training Center, Chengdu	Canadian International Development Association (CIDA)/ Association of Community Colleges	Chengdu Management Training Center	Faculty training Short courses	1983-96
Anhui Enterprise Management Training	The Foundation of International Training (Canada)/CIDA	Anhui Economic Management Cadres Institute	Faculty training Consulting International business liason	1986-93
Canada/China Management Education Program	CIDA	Universities all over China	Canadian faculty teaching at Chinese Universities	1987-94
The Xian MBA Project	The British Council/Universities of Hull and Keel	National Equipment Training Center, Xian Northwestern Industrial University	1 year language training at Xian, then 1 year MBA program at Hull or Keel	1989-97
China Europe Management Institute, Beijing	European Community	China Enterprise Management Association	MBA in China Executive training	1984-92
National Center for Industrial Science and Technology Management Development, Dalian	US Department of Commerce/SUNY Buffalo	Dalian University of Technology	MBA in China Executive training	1980-94 (Stopped in 1989 and suspended indefinitely due to funding shortage)
Shanghai Industrial Management Training Center	Gesellschaft Fur Technisch Zusammenarbeit (Germany)	Shanghai Management Training Center	3-4 month training course	1984-90 (Extension under negotiation)
Sino-Dutch Managment Training Center, Changsha	RVB Delft Institute (Netherlands)	Hunan Economic Cadres Management	Short courses	1987-91 (Extension under negotiation)
The Enterprise Center, Tianjin	Japan	Tianjin Management Training Center	Technical, on-the-job training	1983-92

But, while interest in MBAs is high, quotas imposed by the State Education Commission (SEC) keep actual enrollment low; throughout the country, around 60 degrees are awarded each year by foreign-run programs, while 150 are granted by Chinese institutions. A significant number of students are engaged in non-master's management coursework, however. In 1988, 4,000 post-graduate students, 43,000 undergraduates, and 60,000 vocational candidates were enrolled in management programs. Such interest should continue as long as strong management skills are seen as a ticket to a powerful and lucrative career.

Too narrow a focus

Most Chinese students of management are trained in one of two State-controlled systems. The first consists of the established universities and other institutions of higher learning, which are overseen by the SEC. The second system is composed of the Economic Cadres Training Institutes and Centers, which are governed by the ETO (previously the State Economic Commission).

> ***The shortfall of quality instructors is especially acute in less-quantitative areas such as marketing and organizational behavior.***

In the SEC system, university-level management education tends to fall under the auspices of the engineering or economics departments. Universities offer bachelor's and master's degrees in management or management-related subjects, and students normally enter these programs without any work experience.

In general, the teaching is specialized and theory-oriented. Nearly all the universities suffer from a shortage of qualified instructors, and the shortfall is especially acute in less-quantitative areas such as marketing and organizational behavior. The SEC universities also lack faculty with a thorough understanding of international business practices. Professors who have overseas experience are few and far between, as most of the faculty have been trained in the Chinese education system.

Change is afoot in the SEC system, however. In response to pressure from foreign businesses clamoring for managers versed in international practices and from Chinese enterprises disillusioned with the training provided by the domestic education system, the SEC approved MBA programs on a trial basis at nine universities in early 1991. These institutions include Shanghai University of Finance and Economics, Harbin Industrial University, Xiamen University, People's and Qinghua universities in Beijing, Nankai and Tianjin universities in Tianjin, Fudan University in Shanghai, and Jiaotong University in Xian.

These two- and one-half year programs, which started late last year, were designed for students with some work experience. While the inaugural group of students has yet to complete the program, the training these students are receiving appears to encompass more closely a Western

CEMI MBA Curriculum

•Pre-session (2 months)
Commercial English
The effective manager
Introduction to project work methods
Introduction to computing
Remedial mathematics

•Year One
Introductory accounting
Statistics
Economics (micro and macro)
Organizational behavior
Production and operations management
Management accounting
Marketing management
International commercial and contract law
Corporate finance
Special topic: negotiations, the Chinese economy, or management
Human resource management
In-company projects in Chinese State-owned enterprises

•Internship
Language training for internship (4 weeks)
In-company training in Europe (3 months)

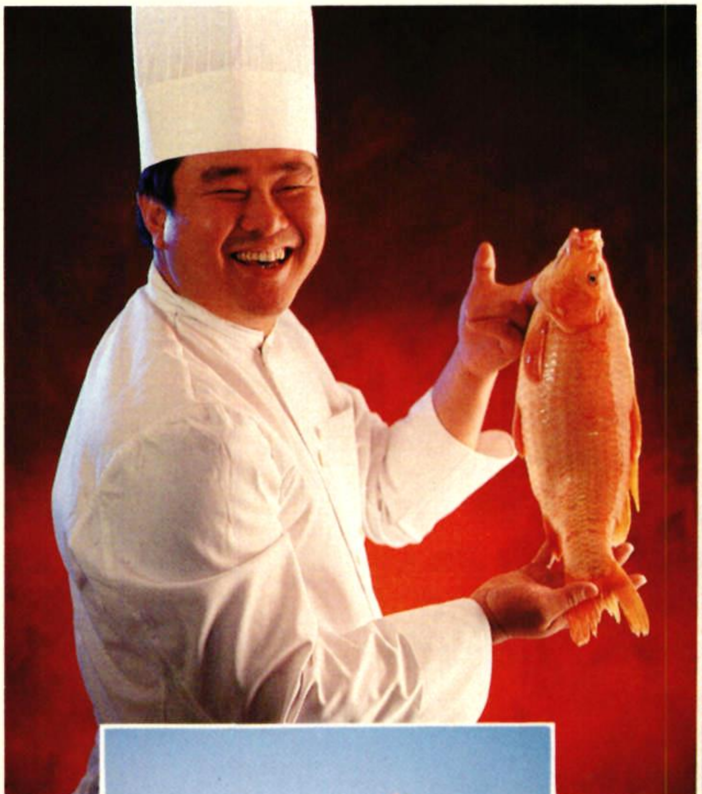
•Year Two
Field research project (2 months spread over the year)
Marketing research
Business games
Production and operations management
Financial institutions and banking
Decisionmaking and forecasting
Consumer behavior and advertising management
International business
International finance
Strategic management
Special topic

SEC Universities Trial MBA Curriculum

•Degree courses
Marxism-Leninism
Foreign language (English)
Management science
Managerial economics
Operational research

•Required courses
(7 chosen from the following)
Macroeconomics
Accounting
Financial management
Marketing
Production management
Systems engineering
Enterprise strategy management
Economic law
Computer-assisted management
Finance
International trade and finance
Applied statistics
Human resource development and management

•Electives
3-5 per specialty. Specialties offered include:
Systems engineering
Industrial economic management
Statistics management
Investment management
Decision analysis
International business
Accounting



Blending East and West

China Hewlett-Packard Co., Ltd. (CHP), a joint venture between US-based Hewlett-Packard Co. and three Chinese partners—China Electronics Import-Export Corp., Great Wall Computer Corp., and Beijing Computer Industrial Corp.—began producing measuring equipment and analytical instruments in China in 1985. Shouqin Ren, a 1964 electrical engineering graduate of Harbin Industrial College, has served as CHP's vice general manager since the venture began operating. In 1987, CHP sponsored Ren's MBA studies at the Monterey International Studies Institute in California. He discussed CHP's management philosophy with Associate Editor Vanessa Lide Whitcomb.

CBR: ***What are CHP's expectations of you as a manager?***

Ren: Within CHP, I'm responsible for supporting the general manager and helping to oversee 400 employees, including Chinese and foreign managers. Specifically, I focus on manufacturing and research and development issues.

Typically, foreign managers come to China for about three years, and spend a year or so learning and adapting to the Chinese environment. Therefore, it's particularly important for Chinese managers to understand advanced management techniques, economics, and something about cultural nuances for the sake of organizational harmony and efficiency. The parent company's managers sometimes push me to introduce new policies, while I encourage foreign managers to accept the limits posed by local conditions. CHP's management can be seen as the integration of international practices and the realities of working in China. After seven years of practice, we are getting more and more international.

CBR: ***Has your MBA training been useful to you?***

Ren: Before my MBA program, I didn't know much about marketing. Now I can work closely with the marketing teams for all Hewlett-Packard products. While my engineering background prepared me for the technical side of our work, my MBA courses helped me understand how employees think, and what managers can do to motivate them better. I encourage people to be more independent in their jobs. I believe I should first be a manager, then a consultant, and lastly, a friend.

CBR: ***Are some aspects of Western management particularly difficult for Chinese managers to grasp?***

Ren: There are a number of big differences between US and Chinese managers. Chinese managers find it hard to delegate authority, for example. Making tough personnel decisions doesn't come easily either; Chinese managers find it difficult to give written warnings to employees, and even harder to fire them. Ironically, even though Chinese managers would like to have the authority to fire someone, they find this authority hard to exercise because firing a person leaves him or her without a livelihood. Western culture, in contrast, focuses on individual performance and how it affects efficiency and productivity. Instead of rewarding the whole team and providing an "iron rice bowl," Western culture rewards the best workers and lays off the worst when warranted.

Western managers are also braver when it comes to taking risks, though they are sometimes so aggressive and authoritative that they don't pay enough attention to local realities. Another big difference is that foreign companies are very conscious of economic results, while Chinese enterprises must be concerned with social consequences. This means managers must take a holistic approach to looking after employees and their families; managers get involved in personal issues like marriages, childcare, and parents' illnesses. At CHP, however, we've made a lot of changes, and have been trying hard to keep personal and family issues out of the workplace.

CBR: ***What are the strengths of Western management?***

Ren: In China, the government plays a big role in running State enterprises, which leaves the general managers with too little authority. But US management philosophy gives each manager a great deal of responsibility. For example, though managers in US firms generally have some degree of spending autonomy, in China, in contrast, every penny spent must be approved by the boss and the boss' boss, right up to the top. CHP introduced new measures five years ago to make managers responsible for business and financial decisions. Our managers are encouraged to learn from their experiences and even from their mistakes. As a result, Chinese managers are becoming better qualified and are replacing foreign managers assigned to CHP.

CBR: ***And in what areas is a foreign management approach less suited to Chinese conditions?***

Ren: Chinese managers take a long-term view, and tend to think about the next 5-10 years, or even the next century. US businesspeople do make long-term goals, but are more concerned with short-term results, and public corporations in particular tend to focus on monthly, quarterly, and year-end figures. While we Chinese do not ignore figures, we also pay a lot of attention to qualitative results like personal development, technology transfer, and contributions to society, which we believe will generate greater quantitative results in the long run. Of course, nothing in this world is absolute. There are some indications in China right now that short-term benefits are beginning to outweigh long-term interests, but I hope this will not become the rule.

view of management than does any other Chinese program. However, the Chinese-designed curriculum still retains a strong bias toward quantitative subjects (*see* p. 15).

Despite this flaw, the new MBA program is a significant development. Over time, it may provide the basis for a management education system that is better able to respond to the actual needs of China's expanding economy.

The 20 training centers and 110 Economic Cadres Management Institutes under the ETO are distinguished by a more job-oriented approach. These institutions provide short training courses—and sometimes college degree courses—aimed at a variety of students, from workers with a few years of experience to mid-level and senior managers of large and medium-sized State enterprises. These centers and institutes, however, do not usually address wider concerns such as global competition, and their staffs include even fewer instructors qualified to teach the full range of modern management concepts. The newly formed Economic and Trade Office, though, might have a major impact on management training since it will bring under one roof training for both foreign trade and local industry and hence facilitate transfer of western management ideas and techniques to domestic enterprises. At this moment, however, the status of the ETO is still too unclear to make any definite assessment of its future role in management training.

Investing in local FIE managers

Even with these two government-run programs to increase management skills, a lack of understanding of the need to transfer the soft aspects of western management theory and an uneven educational curriculum produce Chinese managers who generally have very specialized training, little comprehensive grasp of international business practices, and a limited understanding of the importance of motivational techniques and "people skills."

These shortcomings are of concern to China's foreign investors, who rely heavily on skilled local managers to ensure smooth operations. Typically, FIEs look for managers possessing an understanding of international business, a practical orientation, and a strategy and marketing focus—exactly the qualities and skills not emphasized in traditional management training in China. As a result, foreign ventures quickly find there is a considerable gap between their management needs and the supply of talent available; lack of qualified local management is cited as one of the main constraints on the development of joint ventures in China (*see* p. 24).

FIEs generally need to provide Chinese managers with extensive formal training and well-supervised practical assignments.

FIEs can use a number of recruitment channels to locate the managerial personnel they require (*see The CBR*, July-August 1991, p.16). In most cases, foreign companies are able to recruit people who possess strong technical skills, but who are not necessarily good managers. To bring such personnel up to speed in international management practices, an FIE may need to provide extensive formal training and well-supervised practical assignments.

For the foreseeable future, this will mean either sending Chinese managers overseas for training or enrolling them in one of the foreign-assisted training programs in China (*see* box) even before the FIE's contract is signed. Currently, the majority of foreign companies with investments in China start making serious efforts to train local managers only after the investment contract is signed, which considerably extends the start-up time needed to foster efficient operations.

Reforming the system

If Deng's calls for the deepening of economic reform are heeded, heightened demand for good management personnel will place extreme pressure on government and academic institutions to increase the supply of local managerial talent. The SEC, in particular, will be under strong pressure and could lose control over management education if it fails to train new managers fast—and well—enough. To fill the short-term vacuum, the number of local training centers and correspondence courses, some of which certainly will be of dubious quality, may grow at a rapid pace.

State enterprises will probably find it increasingly difficult to hold onto good managers as the reform process accelerates, as FIEs offer higher wages and better career prospects. Even if Beijing tries to further restrict the mobility of Chinese workers and managers to staunch their exodus from the public sector, such efforts will probably have only temporary effect as the State grows weaker in comparison to other sectors of the economy.

On the positive side, the first few hundred Chinese educated in management abroad are now beginning to return home, though most are joining foreign representative offices, which generally pay the highest salaries. As those positions fill, the newly trained managers should begin to join FIEs. Chinese and foreign enterprises located in the coastal areas will have the greatest selection of managerial talent, as most of the students returning from abroad will likely choose to settle in these areas. Moreover, increased labor mobility within China is resulting in a steady flow of management-level personnel to the coast, where economic growth has been strongest. Currently, many graduates are heading to Beijing and Shenzhen, where a labor pool for mid-level management is beginning to appear. Shanghai may become a similar magnet in the future.

Though the return of foreign-trained managers and increased labor mobility within China will help fill some of the need for skilled personnel, demand will still exceed supply for some time. The competition for good managers will in turn force more and more FIEs to consider developing in-house management capabilities. Over both the short and long terms, the ability to attract, develop, and retain qualified local managers might well be one of the determining factors in who wins—and who loses—in the China market. 完

A Muted Voice for Reform

Despite their unique position of privilege, China's managerial elite feel powerless to affect government policy

Margaret M. Pearson

Chinese managers working in the foreign sector of China's economy are an elite corps of highly educated individuals who have significant exposure to foreign technologies and management skills. They operate in a relatively autonomous sector that has grown to constitute a permanent and vital part of the Chinese economy. As liaisons between the outside world and the Chinese population, Chinese foreign sector managers (FSMs) must reconcile the demands of international companies with the bureaucratic complexities of China's half-plan half-market domestic economy.

In all, they have answered these challenges fairly successfully. Yet, while positioned to play a potentially critical role in guiding the economic and social development of China, this highly positioned group has not parlayed its influence into organized action.

In interviews I conducted with 35 FSMs at joint ventures, wholly foreign-owned enterprises (WFOEs), and representative offices in Beijing, Shanghai, Shenzhen, and Shekou, FSMs displayed near-universal support for increased competition, greater enterprise autonomy, reduced government intervention, and decentralization of China's economy. But, despite their desire for change and their unique potential to disseminate skills and ideas from outside China, the FSMs perceived themselves as unable to influence government policy. Certain that their comments would not be heeded by government officials, the managers have not actively engaged in public efforts to push for the economic reforms they believe are crucial for China's further development, and have not organized any representative group to speak on behalf of their own interests. Instead, FSMs limit their activity to narrow attempts to wend their way through the bureaucracy, usually with the goal of obtaining one-time approvals and favors.

FSMs displayed near-universal support for increased competition and greater enterprise autonomy.

Concerns close to home

While FSMs expressed belief that broad reforms, such as foreign currency convertibility, are important, their most passionate complaints often centered on narrow problems. Many of these grievances concerned bureaucratic limits on their flexibility to conduct business. Several managers who missed important business opportunities abroad because of a six-month wait for visas, for example, wanted the Chinese government to issue exit visas more easily. Representative office managers grumbled that they had to hire employees—or be hired themselves—through the Foreign Enterprise Service Corp. (FESCO). Several complained that because FESCO rarely hires people from outside the immediate municipality, managers often could not employ applicants they particularly desired.

Managers in joint ventures and representative offices also complained that they were paid less than their foreign counterparts. They criticized Chinese government rules that cap their salaries, and, in the case of representative offices, deny them incentive schemes. Several managers desired liberalized import and export licensing requirements and the ability to make direct contacts with suppliers/endusers, rather than being forced to go through foreign trade corporations. Finally, one manager bristled at the restrictions against direct contact with Taiwan and South Korea, complaining that such rules cost him good business opportunities.

More broadly, when asked what they have seen in the international economy that they would not want China to adopt, virtually all the interviewees said they saw nothing they would reject. Two managers, however, were careful to say that certain goods, values, and behaviors they perceive as "foreign"—such as drugs, "lax" sexual norms, and prostitution—should not be allowed into China. Another manager believed foreigners should be excluded from certain "vital" sectors, such as weapons development. But these comments were exceptions and reflected more of a desire to temper the impact of capitalism, rather than to reject it. Only one manager, from a large joint venture in Beijing, specified that socialist ownership should remain

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dominant in China. Yet when asked which socialist model China should adopt, he suggested the "market socialism" of [West] Germany!

Two other points that emerged from the discussion of economic reform with FSMs are worth noting. First, two managers, both of whom do substantial business through government organs, recognized that decentralization, a key element of reform, could hurt their businesses by forcing them to find new marketing and supply channels. Nonetheless, these managers were highly supportive of further decentralization, suggesting that more than narrow self-interest can underlie FSMs' desire for reforms.

Second, most interviewees asserted that their views were shared by other managers in the foreign sector. Many also believed that their views were common among young people. Only occasionally did they perceive their opinions as outside of (i.e., in favor of greater change than) the norm. Several asserted that most managers in the State sector—although they tend to be more protectionist—also acknowledge the need for further reform.

Prestige without clout

While they hold strong views about the need for change, FSMs have not translated their opinions into pressure for change. Most believe that effective procedures for doing so are absent. Said one, "Chinese managers could complain to the Foreign Investment Bureau [of the Ministry of Foreign Economic Relations and Trade (MOFERT)], but this is no use at all. They would just try to explain the policy to you [rather than change it]." Another stated, "There is no way to express the need for change to the government. I don't know what channel a person could use."

Others agreed that there were no formal channels through which they could register their opinions. State enterprise managers can voice complaints at annual meetings with their superior ministries and through their representatives in the National People's Congress (NPC). FSMs, however, frequently pointed out that they are seldom included in ministerial meetings and—because of suspicion of Chinese who work in foreign business—will never be represented in formal bodies such as the NPC.

"Foreigners should do something to protect Chinese employees' interests, and should argue with the government."

They also believed that officials to whom they might express the need for change either do not care enough to help, or mistrust or wish to thwart FSMs. As one interviewee maintained, "It is hard for Chinese managers to express complaints because people in government don't have the same feelings as we do and only think their way. Maybe they will listen, but it goes in one ear and out the other." Another asserted, "The government doesn't trust Chinese people who work in foreign companies...If you work in a foreign company, others cannot understand it. You are viewed as not being patriotic enough...Foreigners have power to influence the government, but Chinese people don't. The government gives privileges to foreigners. But if I were general manager of this company, the government wouldn't consider what I say. This is discrimination against the Chinese by the Chinese government itself."

Although some managers conceded that they might find a sympathetic ear at low levels of officialdom, they argued that these low officials themselves have very little authority on important issues. While lower officials can perhaps pass a suggestion up the hierarchy, change is still unlikely to occur. And it might be risky for managers to suggest changes lest they be pegged as troublemakers.

The manager who stressed the government's suspicion of FSMs was so sure of the lack of Chinese managers' influence that he placed the burden of pressing for change on foreign managers, sharply criticizing them for not working hard enough to effect change: "Foreigners haven't tried their best to change China to a more favorable free-market economy or a more free-market view, or to make China more humanitarian. Instead, they have adapted themselves to doing things the Chinese way. For example, the Chinese authorities want to tax Chinese employees in representative offices...Foreigners should do something to protect Chinese employees' interests, and should argue with the government. But [instead] they try to protect the employee by going around the government, perhaps by just declaring the salaries to be lower and giving employees extra funds on the side." This manager preferred that foreign managers confront the government directly on taxation of employees and other issues.

Some managers expressed that, rather than trying to fight on behalf of their own interests in China, they would prefer to escape their problems by going abroad. This possibility was suggested by two managers from the SEZs, both of whom claimed that if things got too bad, they'd leave China. As one said, "If I don't like it here, I can go to [Europe]."

Old ways linger

There is one way in which FSMs do try to press for change, however. They employ the traditional strategy of using personal relationships (*guanxi*), sometimes oiling these relationships with small bribes. Because foreign companies must obtain numerous approvals from officials at various levels, and because local or national governments may be customers or suppliers, ensuring the good graces of superior officials can be essential for FSMs.

FSMs generally rely on their personal ties to achieve narrow goals such as circumventing or gaining a favorable interpretation of a rule, assuaging the anger of an official about past deeds, or moving a procedure along faster. Indeed, nearly all of the managers interviewed stressed the importance of cultivating relationships with officials. As the top manager of a small Beijing WFOE said, "I am responsible for maintaining contacts [with national-level officials]. So I will invite officials to dinner, give them gifts such as calendars, etc. I will also send them brochures, and let them know that [my company] will help China and will raise its level of technology. There has to be a good relationship, because the ministry is influential in [this industry]. If they don't like us, they may tell potential customers that we are a bad company, and this would be harmful.

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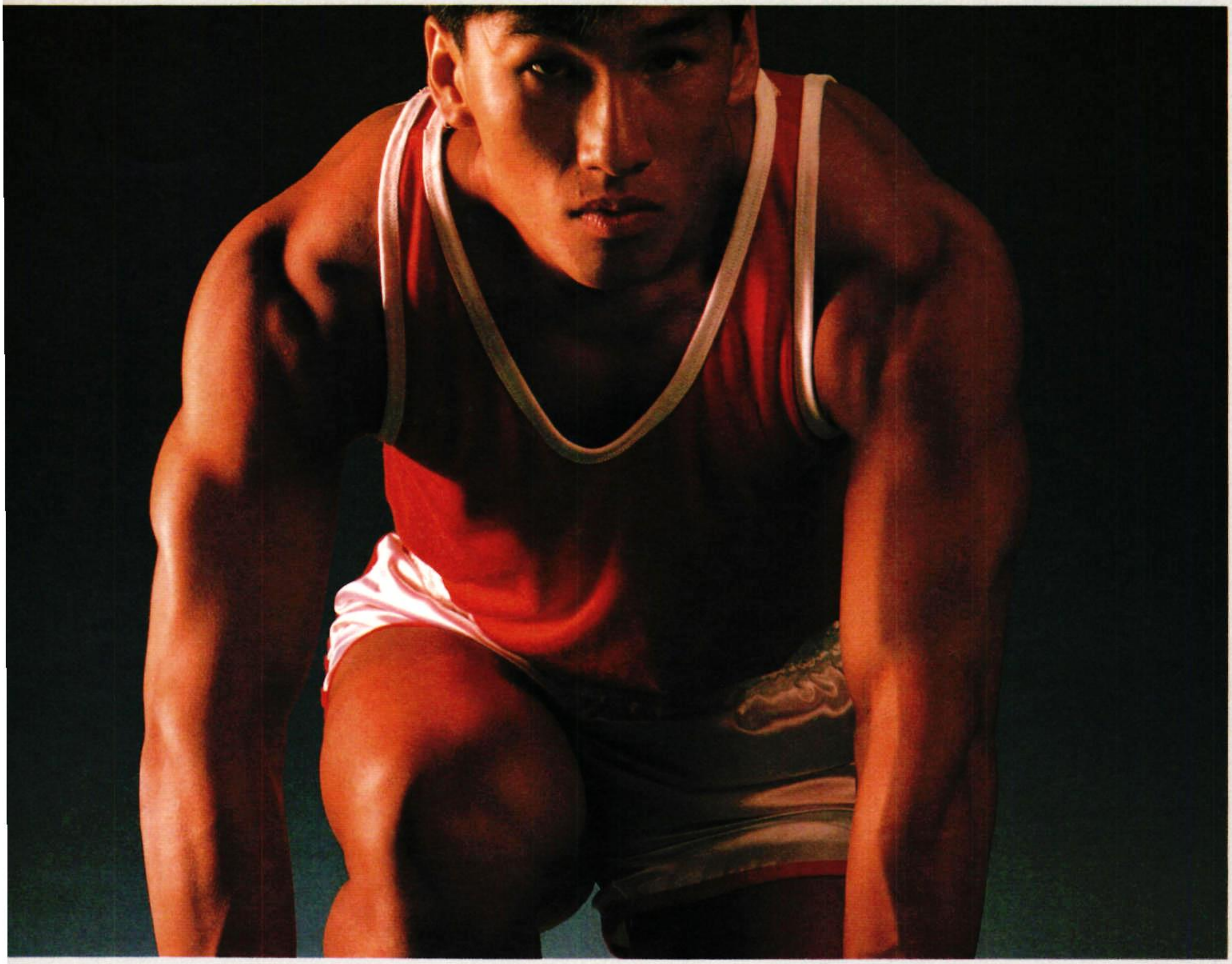

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So, even though the ministry doesn't regulate us, I just want to keep them happy."

In another case, a WFOE manager cultivated favorable ties with an office in the Ministry of Metallurgical Industry in a successful effort to convince the officials to approve a new joint venture, despite an ongoing dispute with the same office on a different matter. Similarly, during the recession of the late 1980s, the deputy general manager of a Beijing joint venture found a contact in the city government who helped break an impasse with a ministry over payments to the joint venture.

Despite such successes, there are drawbacks to reliance on *guanxi*. Chinese managers rely on their connections to avoid formal rules established by the government rather than try to change the existing regulatory regime through organized pressure. The patronage system makes it difficult to muster such pressure, moreover, since it pits managers against each other, making it difficult for FSMs to foster ties with their counterparts in other companies. And while the cultivation of relationships may be effective in gaining a favorable outcome for the company of the manager involved, it may cut against expatriate managers' efforts to incorporate foreign methods (particularly reliance on market signals) into their Chinese operations.

Few binding ties

Consistent with their use of *guanxi*, FSMs have only weak links with each other. FSMs working in different foreign businesses do have some contact through business dealings, but claim that business competition, lack of inclination, and mostly, lack of time preclude them from building stronger horizontal networks. My interviews revealed no evidence that FSMs themselves have established formal organizations of any sort to counter their lack of cohesion. This lack of activity contrasts with the behavior of foreign managers in China, many of whom have established groups to share experiences and lobby the government.

There is a formal FSM business association created by the government, however—the China Association for Enterprises with Foreign Investment (CAEFI). To some extent, this national association is free to operate on behalf of its membership. Yet, at least thus far, CAEFI has done little to alleviate the lack of organization or the sense of powerlessness that characterizes FSMs. Rather, as the "non-governmental face" of MOFERT, it plays a dual and ambiguous role: it serves the government's interests while simultaneously trying to harness managers' participation in improving the investment environment. It may also pre-empt the emergence of more independent associations in the foreign sector.

FSMs generally rely on their personal ties to achieve narrow goals.

CAEFI: MOFERT's other face

Just one of many economic "associations" that have proliferated in China since the late 1970s, CAEFI was established in 1987 as a business association for high-level managers in joint ventures and WFOEs. Technically, companies are members, as opposed to individual managers. Membership appears to be genuinely voluntary, and both foreign and Chinese managers participate in CAEFI activities. In addition, several prominent foreign business representatives advise the organization as "standing councillors." The association has branches throughout the country, including Shanghai, Guangzhou, Beijing, and Shenzhen. Member companies pay dues, which currently stand at ¥1,000 ($181) per year.

Originally organized by MOFERT and the now-defunct State Economic Commission, CAEFI's top staff consists primarily of retired MOFERT officials. CAEFI's links to the government are further evident in formal written statements that outline two of its main functions: "to implement government policies, laws, and provisions relating [to the open policy]," and "to publicize government policies" related to foreign enterprises. State influence is also reflected in one high-ranking CAEFI official's complaint that the government tries to control the organization.

Serving managers—and the State

Yet elements of autonomy do exist in CAEFI's functions and activities. The organization receives virtually no government funds, but rather has only membership fees at its disposal. Many of its activities involve attempts to help foreign-invested enterprises solve minor problems, such as facilitating the installation of telephone lines. The association has also aided its members in more important ways, such as arbitrating disputes.

More significantly, the association has represented the interests of joint ventures and WFOEs to the government by conveying the problems and complaints of its members to relevant higher authorities. It also holds seminars and retreats at which members may question officials about policies. The leaders of the Guangzhou branch, for example, hold three or four meetings with local officials each year to try to solve the problems of branch members.

CAEFI branches have also intervened on behalf of foreign sector businesses in disputes with local governments. For example, in response to the complaints of its members, CAEFI's Beijing branch effectively pressed the municipal government to standardize the issuance of visas for FSMs to travel overseas on business. In another case, the Shanghai branch strongly lobbied against a new rule requiring foreign-invested businesses to report transactions that earned foreign exchange to the State Administration for Exchange Control (SAEC). CAEFI argued that the rule, which would have required firms to report each transaction, no matter how small, was overly burdensome. The branch successfully lobbied the central SAEC office to adjust the policy so that only transactions over a minimum amount had to be reported, and even then, only on a quarterly basis.

While there is no guarantee that government officials will always listen or respond to complaints articulated by CAEFI, these cases suggest that the organization does have some influence with government officials and is willing to use it on behalf of foreign businesses. Yet the FSMs interviewed did not take CAEFI seriously as a channel for putting forth suggestions or redressing complaints. Some had never heard of it, or confused it with FESCO or MOFERT's Foreign Investment Association (both of which clearly are government offices). Those who had heard of CAEFI generally were unsure of its function, thought that its activities were trivial, or believed that it was only for foreigners. Only two interviewees saw CAEFI as a possible channel through which they could vent their complaints, and one felt that only minor grievances could be expressed. Thus, while CAEFI may at times represent the interests of FSMs and their businesses, it appears to do so with a minimum of direct input from most Chinese managers.

This factor, coupled with CAEFI's close ties to the State, constrain its ability to vigorously pursue the interests of FSMs and their employers. Indeed, it is quite plausible that CAEFI might align itself with the interests of the foreign sector (and FSMs) on some problems, such as the visa issue, but not on more controversial issues, such as improving foreign enterprise access to the domestic market. While certain CAEFI efforts to challenge government policy may signal a potentially more independent role for the organization, it remains a far cry from western-style business associations.

CAEFI does have some influence with government officials and is willing to use it on behalf of foreign businesses.

Backing reform

Given what FSMs have indicated about their beliefs in the need for further reform, they have good reason to back Deng Xiaoping's current reform campaign. They can be expected to strongly support calls for greater enterprise autonomy and further "opening" to the outside world, but, in light of the vicissitudes of Chinese politics and their lack of faith in their own influence, they may be reluctant to express these views in public.

An awareness of the restraints FSMs feel the Chinese system puts on them can help foreign companies understand the reluctance of many Chinese managers to assert their views, as well as their preference to use *guanxi*, rather than confrontation, in their dealings with officials on behalf of the company. Foreign-invested enterprises and foreign managers who work with FSMs could offer support to their Chinese managers by openly endorsing and following up with authorities on FSM suggestions. Bolstered by such support, FSMs may come to play an even more valuable role both in their own enterprises and in China's constantly evolving investment environment. 完

FIE Labor Practices

A new Council survey reveals that shortages of employee housing and skilled managers are top problems for foreign-invested enterprises

John Frisbie and Richard Brecher

The end of the austerity campaign in late 1991 heralded what appears to be another boom cycle in China's economic performance. Deng Xiaoping's repeated calls to speed up and deepen economic reforms helped vault first-half 1992 GNP 10.6 percent above the figure recorded for the same period last year, and trade and investment levels have also taken off. Foreign direct investment figures for January-May 1992, for instance, show a 100 percent increase in the number of contracts signed over the same period of 1991.

In order to gain a better understanding of key issues confronting foreign investors, the US-China Business Council early this year conducted a survey on labor and wage practices in foreign-invested enterprises (FIEs) in China. Our survey sample included 31 joint ventures and 2 wholly foreign-owned enterprises (WFOEs). All are engaged in manufacturing projects and all but two involve American multinationals. On average, the projects surveyed have been in operation for nearly 4 years, with the longest in operation 9 years. The majority of these FIEs are located in coastal provinces or cities.

The housing crunch

The survey very clearly indicates a new labor concern for foreign investors: housing for local staff. Housing issues were ranked as "serious" or "fairly serious" concerns by nearly every respondent of our survey. The main problems center around the lack of existing housing for Chinese employees and the cost of constructing or renting new housing to compensate for the shortage. The problems are particularly acute for FIEs hiring significant numbers of employees from sources other than the Chinese partner. Housing issues are analyzed and explained more fully on page 26.

TABLE I

Top Labor Issues

on a scale of 1-4, with 1=serious and 4=no problem

Issue	Average Rank
Housing	1.8
Attracting and keeping quality managers	1.9
Attracting and keeping quality sales staff	2.4
Attracting and keeping quality workers	2.5
Performance	2.7
Transferring employees to other operations	3.2
Unit cost of labor	3.3

Staffing FIEs

Apart from housing, the survey looked carefully at expatriate and local staffing at FIEs. As expected, expatriate staff are kept to a minimum by most of the FIEs in our sample, due to the expense and foreign exchange costs of maintaining expatriates in China. Twenty-three respondents reported they have only 1 or 2 expatriates on site, while 2 have no expatriates at all. The remaining 8 FIEs each have anywhere from 4-14 expatriate staff. The position most commonly filled by an expatriate in the FIEs we surveyed is general manager (28 responses), with technical/manufacturing manager and financial manager the next most common positions (10 and 8 responses, respectively).

The disparity in salaries between expatriate and Chinese managers usually leads to intense negotiation between a venture's Chinese and foreign investors, with the Chinese side often pushing for the foreign company to pick up a substantial portion of expatriate costs. Our survey indicates foreign companies had mixed success in dealing with this pressure. In 20 of the 31 expat-staffed FIEs in our survey, the FIE pays 50 percent or more of the expatriate compensation package, and the foreign company covers the rest. Ten FIEs pay all expatriate compensation costs, while in five ventures, the

The disparity in salaries between expatriate and Chinese managers usually leads to intense negotiations.

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foreign partner pays all the costs.

For the most part, the number of local staff employed by most FIEs is small compared to the number employed by Chinese enterprises in similar lines of business. In our survey, 85 percent of the FIEs have less than 450 local employees, while nearly one-half have fewer than 150 workers. The FIEs we questioned have hired, on average, more employees from other work units (61 percent) than from their Chinese partners (39 percent). This probably reflects our surveys' high proportion of "greenfield" projects, which start from scratch rather than take over a Chinese enterprise's facilities and workers.

The FIEs' success in hiring employees from other units was mixed. Generally speaking, in order for an employee to join an FIE, his work unit must agree to release his *dang an*, or file. This file contains the employee's work record and entitles him to benefits accorded to workers in the State sector. If an employer is not willing to release the file and the employee leaves, he loses these benefits—a risk few Chinese are willing to take (*see The CBR*, July-August 1991, p.20). While 80 percent of the FIEs we surveyed said they have been able to transfer some employees without problem, nearly half reported that in certain cases their efforts have been unsuccessful. Furthermore, one-third said they were able to complete a transfer only after compensating the employee's work unit. These payments ranged from ¥500-8,000, with the average around ¥1,000.

Ironically, firing employees seems to be somewhat easier than hiring them. Of the FIEs we surveyed, 28 have discharged local employees, and only one-quarter of the companies reported resistance to the dismissals. The objections usually came from the local government labor bureau.

TABLE II

FIE Wages by Region

Region	Wage
Guangdong	¥845
Beijing/Shanghai	549
Other coastal locations	614
Northeast and inland	322
National average	549

Local wages

Our survey confirmed earlier findings that wages for Chinese staff vary considerably according to type of job and location of the enterprise (*see* tables II and III). Basically, wages tend to be highest for managers and in ventures located in major cities and in Guangdong Province. FIEs in the northeast and inland provinces have the lowest wage rates. Our survey yielded a national average salary of ¥549 per month (bonuses and benefits included) for a production worker—up from ¥508 in a 1989 Council survey.

TABLE III

Average Monthly Wage of FIE Employees

Wage Category	Management	Sales	Production
Base Pay	¥473.29	¥328.63	¥288.60
Bonus	267.67	277.05	185.60
Housing subsidy	71.21	63.54	53.80
Retirement	101.00	82.82	71.64
Other subsidies	103.19	95.56	87.33
Total pay	861.48	677.11	549.35

In light of recent internal measures aimed at limiting wage levels in FIEs (*see The CBR*, January-February 1991, p.8), we asked the FIEs whether they had encountered pressure to control wages of local employees. Five of them (15 percent)—in Beijing, Chengdu, Dalian, Wuxi, and Xian—answered affirmatively. This represents a marked decrease from a Council investment survey conducted in the spring of 1990, when 29 percent of the respondents said they had experienced pressure to control wages. Given the small size of our sample, however, it is not possible to determine whether the wage control effort really is diminishing.

Nearly every respondent in our recent survey claimed that the Chinese sought to link local manager salaries to expatriate manager salaries during project negotiations. However, only 23 percent ended up with any such linkage. In these FIEs, local manager salaries are pegged at 25-100 percent of expatriate salaries, with the average about 50 percent.

Whether or not the Chinese manager's salary is specifically linked to the expatriate manager's salary, it is usually higher than what would be offered at a comparable Chinese enterprise. However, few Chinese FIE managers (2 out of 33 in our survey) get to keep the entire sum. The difference between the nominal and actual take-home salary often goes to the Chinese partner or to the government. However, many FIEs in our survey said they have been able to keep the differential within the FIE by depositing the balance into the venture's housing fund, collective welfare fund, or some other FIE-controlled account.

TABLE IV

FIE Labor Union Activities

Activity	Number of FIEs
Organizes recreation/cultural/social activities	25
Organizes political study	15
Negotiates and/or signs labor contracts	12
Intervenes in labor discipline cases	14
Participates in FIE board of directors' meetings	11

Party and trade union activities

Few of the respondents in our survey listed Communist Party or trade union activities in their FIEs as obstacles to their ventures' operations. The 28 respondents with labor unions indicate that the union's foremost activity involves organizing social events (*see* table IV). While 13 said Party activity within their FIEs had increased over the past two years, only 2 of these respondents said that the increased activity adversely affected their operations.

China vs. other locales

The majority—28—of the FIEs we queried provide some form of overseas training for their local employees. The cost of this training typically is borne by the FIE, though nearly one-quarter of the FIEs reported that the foreign partner picked up at least part of the costs. In most cases this usually amounted to less than 50 percent of the expenses, but one company said it covered everything. In no case did a Chinese partner pay for any training costs.

Finally, we asked respondents to compare workers in their China operations with those they have hired in other countries. As expected, the unit cost of labor in China is almost always lower than elsewhere. In terms of performance, though, the responses were split—about one-half said the performance of their workers in China is the same as or better than elsewhere, while an equal number said it is worse.

In general, the labor situation for FIEs in China has improved over time; FIE autonomy over hiring and firing decisions, the introduction of incentive pay schemes, and FIE-provided training have improved labor management and are gradually raising performance standards. Labor costs, moreover, are still low compared to other countries. But as China seeks to change its socialized system to incorporate more market influences, the cost of labor may increase, for both new and existing projects. To compensate, China will need to ensure that FIE autonomy in labor affairs is maintained, so that gains in productivity and performance can continue. 完

TABLE V

Cost of Labor in China vs Cost of Labor in Foreign Countries

	number of responses: Higher	Lower	Same
Unit cost of labor	2	30	1
Level of performance	5	16	12

Housing Local Employees

Holding on to top people is getting more expensive

John Frisbie

The housing problems cited by the respondents to our labor survey have emerged gradually over the last few years, and stem from joint ventures' increasing need to hire employees directly from the labor market. Previously, nearly all of a joint venture's employees were hired from the Chinese partner. The partner housed these employees in its own government-subsidized facilities, and the joint venture paid a housing subsidy to the Chinese partner or a municipal bureau on behalf of these workers.

Under such an arrangement, a joint venture's housing costs are minimal. The amount varies from place to place, as specified by the local labor bureau or local investment regulations. For example, Dalian's 1988 Foreign Investment Enterprise Labor Management Regulations stipulate a housing subsidy of no less than ¥20 per month per employee, while Beijing rules call for a housing subsidy of ¥30 yuan per month. In the Council's labor survey, the average housing subsidy for a production worker was ¥54 per month (with a range of ¥4-114).

As long as a joint venture hires workers from its Chinese partner, this system works. However, over time more and more joint ventures have realized they must hire personnel from other sources if they are to find skilled, well-trained staff—particularly management, technical, and sales personnel. Wholly foreign-owned enterprises (WFOEs), which do not have Chinese partners, must hire all employees from other sources.

Unfortunately, once they decide to join a foreign-invested enterprise (FIE), employees hired from other work units usually lose the housing supplied by their old employers. Yet few Chinese partners will provide housing to these new employees, since most Chinese enterprises are already stretched to accommodate their own employees and their dependents. If a prospective employee learns an FIE cannot provide housing, he or she may decide not to transfer. Housing, therefore, has become a key factor in FIEs' ability to attract and keep talented personnel—particularly in cities where housing is in short supply.

Buying, building, and renting

Faced with the problem of attracting personnel, joint ventures are increasingly turning to buying, building, or renting housing for at least some of their local employees. Of the 33 FIEs we surveyed, 16 have either built (8 respondents), rented (4 respondents), or purchased (4 respondents) at least some housing.

The cost of any of these options is substantially higher than paying housing subsidies to one's Chinese partner. To determine just how expensive, we used survey responses to calculate the cost of building or buying housing on a per month/per employee basis (factoring in China's 20-year amortization rate for buildings). The resulting costs ranged from ¥139-649 per month/per employee, with location being the determining factor (*see* table I). Housing in municipalities such as Beijing, Shanghai, and Guangzhou was clearly more expensive (¥450-650) than in smaller cities or towns (¥130-300 per month).

These survey results largely corroborate China's own published market housing rates of ¥1,800-2,800 per sq m in urban areas. Assuming a range of apartment sizes from 30-50 sq m, these prices produce an amortized per month/per employee cost of ¥225-583. As the average total wage bill for production workers at the ventures we surveyed is about ¥550 per month, providing such employees with market-priced housing can add 50-100 percent to the cost of labor.

TABLE I

Cost of Building Employee Housing

City	Construction Cost (¥/month/employee)
Beijing	446
Dalian	312
Guangzhou	539
Nantong	271
Shanghai	649
Shenzhen	206
Suzhou	139

Whether these housing costs are bearable depends upon the number of employees that require housing and the cost of labor as a percentage of total production costs. A large joint venture with several thousand workers would likely find the extra cost of building housing for all of its employees prohibitively expensive. Since most joint ventures have less than 300 employees, however, providing them with housing may not be an overwhelming burden. The cost can also be lessened if housing is provided only to individuals holding managerial or other key positions for which competitive compensation is necessary to retain quality staff.

The money to build, buy, or rent housing can come from a variety of sources. Two common sources of at least some funding are the joint venture's housing subsidy fund and general welfare fund. Some joint ventures also have used some of their *renminbi* profits to invest in housing or, if the housing problem is significant enough, have injected additional capital to build or rent new facilities.

Leaving it up to the employee

A surprising number of respondents to our survey (16) left responsibility for obtaining housing up to their employees. In nearly every case, these joint ventures were located either in small towns or rural locations, where individuals find it relatively easy to locate housing, or in the newly built special economic and economic and technological development zones (SEZ, ETDZ), which are located outside urban areas and away from most Chinese partners' facilities, where employees normally would be housed. This high response rate should not imply that leaving housing decisions up to individual employees is a satisfactory way to deal with the issue; 14 of the 16 ventures who handled the housing issue in this way reported that housing was a "serious" or "fairly serious" problem for their joint ventures. Only in locations where housing is readily available and competition for staff not keen should an FIE consider leaving housing decisions up to its employees; in areas like Beijing or Shanghai, where foreign company offices compete fiercely for talented staff, FIEs must address housing issues directly if they hope to attract and keep quality people.

New territory

Foreign investors considering buying or building housing for their employees must deal with a number of issues for which there is little or no precedent. One such issue is liability—who is responsible for losses or damages in case of accidents or natural calamity? And what happens if an employee is dismissed and is to be transferred out of the FIE—can he be removed from FIE housing if he has no other place to live?

Another issue to explore is how to distribute housing to one's employees. Because the main reason for building or buying housing is to attract and keep staff, a joint venture or WFOE can develop an incentive program to facilitate these goals. One joint venture in Beijing, for instance, has a housing incentive program that transfers ownership of an apartment to the employee after a certain number of years of service. Prior to initiating the program, the joint venture had difficulty keeping staff that it had trained and developed—they were often hired away from the joint venture by representative offices that valued their training and offered high salaries. After the housing incentive program was implemented, however, the defections stopped.

Although virtually no US company wants to become involved in its employees' living arrangements, the need to go beyond Chinese partners to find and keep quality managers and other skilled employees is forcing more and more investors to reconsider this position. Prospective investors should examine the issue during the project planning and feasibility study stage. The Matsushita color picture-tube joint venture in Beijing, for example, included funding for the construction of two apartment buildings on site as part of its original investment plan. Companies considering urban locations, in particular, should consider the housing options available and how the issue might affect recruitment efforts and operating costs.

As China tries out various housing reform strategies, existing joint ventures should also expect that even subsidized housing costs will increase. The government has announced it will experiment with housing reform in order to reduce—or eventually eliminate—government housing subsidies. Such a development will necessitate wage increases or shift the burden of rent subsidies onto employers—including FIEs. Shanghai has already moved in this direction, announcing last year that FIEs must make contributions to a collective reserve fund for their employees' housing (*see The CBR*, July-August 1991, p. 30). If such reforms enable more Chinese to have control over their housing situation, the exchanges may eventually contribute positively to labor mobility. In the interim, though, the housing question will likely become more critical for FIE personnel managers. 完


BEIJING
HANGZHOU
SHANGHAI
SHENZHEN

An Environmental SOS

Beijing is relying on foreign funding to prevent further degradation

Vanessa Lide Whitcomb

China, along with 118 other countries, participated in the June 1992 "Rio Summit" to decide the rights and duties of all nations to achieve an environmentally sustainable global economy. Though the follow-up activities to "Agenda 21"—the summit's 800-page concluding document—have yet to be clearly defined, it is likely that at least some additional funding will be committed to education, demonstration, and technology-transfer projects targeting global environmental problems.

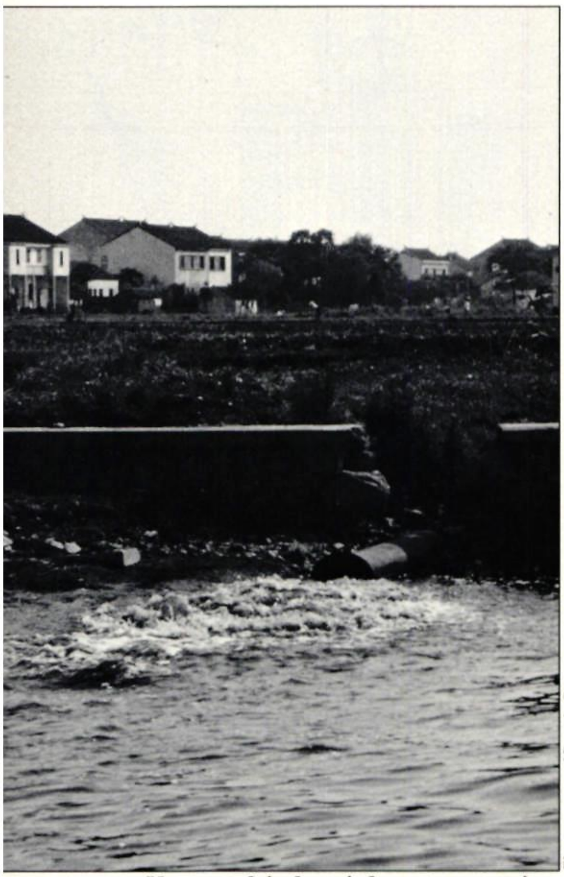

Photo courtesy of Dennis Cox

Untreated industrial wastewater is a major source of China's water pollution.

Foreign-funded programs are a primary means for US and other foreign environmental consulting companies and equipment suppliers to enter the China market.

Such programs would almost certainly include China, where heavy dependence on coal use and growing use of chlorofluorocarbons has triggered world-wide concern over China's contributions to global warming. Any new Rio-prompted initiatives to combat such problems would join a small but important core of foreign-sponsored environmental projects in China. Though few of these projects have attracted public attention, they provide China with crucial technology and funding. Moreover, since Beijing has been reluctant to commit its own resources to encourage imports of foreign environmental goods and services, foreign-funded programs are a primary means for US and other foreign environmental consulting companies and equipment suppliers to enter the China market.

Environment vs. development

With its enormous population and limited land area, China's environmental needs are many. Beijing's ambitious development programs since 1949, however, have paid little attention to the environmental costs of development, focusing instead on boosting industrial output. As a result, water-borne hazards such as industrial toxins, untreated sewage, and pesticide run-off are becoming increasingly common throughout the country. Air-borne pollutants, such as coal dust and other particulates, sulfur dioxide, and ozone-depleting chemicals, have also been on the rise (*see The CBR,* July-August 1990, p. 32).

Mounting public concern within China, coupled with growing international pressure on Beijing to minimize trans-border pollutants, however, has begun to bring about greater awareness of the fragile state of China's environment. A recent poll by China's National Environmental Protection Agency (NEPA), for example, concluded that 80 percent of the 2,000 officials, intellectuals, and workers surveyed in six provinces were unhappy about the worsening environment in China.

This growing level of dissatisfaction, however, has not translated into greater spending to address China's environmental problems. There is little indication in the Eighth Five-Year Plan (FYP, 1991-95) that Beijing will make environmental spending a priority. Recent discussions with NEPA officials in Beijing reveal that China's

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spending on the environment will likely reach 0.8 percent of GNP this year, a slight increase over the 0.7 percent allocated in 1991, but still far short of the 1.5-2 percent NEPA believes will be required to make a serious assault on China's pollution problems.

8th FYP goals

According to NEPA's 1991 annual report, China intends to tackle a number of environmental issues during the 8th FYP. Increasing agricultural yields by protecting soil and water quality, particularly in the northern regions, will be a priority, as is protection of 87 million ha of grassland and 124 million ha of forests. Easing water shortages and improving water quality north of the Yangtze River will also be a primary concern, as northern China has 64 percent of the country's cultivated land, but less than 20 percent of its water resources. Provision of safe drinking water for a greater percentage of the population is also expected to become a national goal in the near future. In addition, Chinese officials have stated they intend to step up efforts to preserve indigenous animal and plant species, tackle marine pollution in coastal areas, and address the acid rain problem in southern China. Most of the government's efforts, however, will be devoted to easing industrial pollution, which NEPA acknowledges as the major source of China's pollution problems.

World Bank projects offer a low-risk means of entering the China market, as the Bank provides foreign exchange for Chinese purchases of foreign goods and services.

Such lofty goals will require the outlay of significant funds, but as a regulatory agency, NEPA's funding power is low. Rather, NEPA concentrates on developing the regulatory framework to encourage or mandate environmental expenditures by individual industrial ministries, or by local or provincial governments. This decentralized funding means that few comprehensive details are available on what levels of foreign exchange will be allocated to environmental projects under the 8th FYP, though NEPA estimates that

Selected Environmental Indicators

Water Pollution

The amount of human and animal fecal matter in many of China's rivers exceeds recommended safe levels for bathing/irrigation (1,000 per 100 ml sample) and human consumption (0 per 100 ml sample).

River	Annual mean concentration, 1987-90 (number per 100 ml sample)
Pearl River	174
Yangtze River	731
Yellow River	1,539

Air Pollution

Concentrations of air pollutants in several Chinese cities exceed recommended annual guidelines for ambient levels of sulfur dioxide (40-60 micrograms/cu m) and particulates (60-90 micrograms/cu m).

City	Sulfur dioxide concentration, 1987-90 annual mean concentration (micrograms/cu m)
Beijing	107
Shanghai	69
Shenyang	118
Xian	95

City	Suspended particulate matter, 1987-90 annual mean concentration (micrograms/cu m)
Beijing	413
Shanghai	253
Shenyang	435
Xian	580

Global Warming

China's growing contribution to global warming trends reflects to a large degree the country's heavy dependence on coal and increasing use of ozone-depleting chlorofluorocarbons (CFCs).

Leading sources of greenhouse gas emissions, 1989

United States	(18.4 percent of global emissions)
USSR	(13.5 percent)
CHINA	(8.4 percent)
Japan	(5.6 percent)
Brazil	(3.8 percent)
India	(3.5 percent)

Countries with the highest industrial emissions of carbon dioxide, 1989

United States	4,869,005 million tonnes
USSR	3,804,001
CHINA	2,388,613
Japan	1,040,554
Germany	964,028
India	651,936

Countries with the highest CFC emissions, 1989

United States	130,000 tonnes
Japan	95,000
USSR	67,000
Germany	34,000
Italy	25,000
United Kingdom	25,000
France	24,000
Spain	17,000
CHINA	12,000

Sources: World Bank, World Resources Institute

Foreign Assistance to China's Environmental Sector

Asian Development Bank

4/92: Provided $600,000 grant to develop a national strategy on global climate change.

2/92: Provided $500,000 technical assistance grant to monitor and protect arid and semi-arid areas in Shanxi, Shaanxi, and Inner Mongolia.

11/91: Provided $600,000 technical assistance grant to upgrade environmental management information systems in Shanghai, Dalian, and Nantong.

7/91: Provided $100,000 technical assistance grant to reduce environmental pollution in Qingdao, Shandong Province.

3/91: Provided $100,000 technical assistance grant to boost industrial energy efficiency and environmental management.

1/91: Provided $600,000 technical assistance grant for environmental management and preservation of natural resources in Hainan Province.

12/90: Approved $600,000 technical assistance grant for environmental impact assessment and training.

Global Environment Facility

6/92: Provided $10 million for coal-bed methane project.

6/92: Provided $30 million for ships waste project.

6/92: Provided $2 million for study of China's greenhouse-gas emissions.

United Nations Development Program (UNDP)

5/90: Financed $3.41 million water resource management project in North China.

5/90: Financed $690,000 project to mitigate China's chlorofluorocarbon (CFC) emissions.

United Nations Environment Program (UNEP)

12/90: Provided assistance for water management and control of water contamination in Shaoxing, Zhejiang Province.

World Bank

6/92: Provided $100 million to strengthen Tianjin's environmental monitoring, waste disposal, and sewerage facilities under the Tianjin Urban Development and Environment Project.

6/92: Provided $15 million toward the Ship Waste Disposal Project (*see* GEF listing).

2/92: Provided $110 million to develop clean water supplies in Guangxi, Yunnan, Hunan, Gansu, Xinjiang, and Inner Mongolia under the Rural Water Supply and Sanitation Project.

11/91: Provided $125 million to strengthen environmental planning and provide sewerage and waste treatment facilities under the Beijing Environment Project.

8/91: Provided $125 million to reclaim desert wastelands in Tarim Basin in western China.

3/91: Provided $78 million to upgrade water resources and urban transportation through the Liaoning Urban Infrastructure Project.

Note: *This list is not intended to be comprehensive.*
Source: *US-China Business Council files*

China's total environmental expenditures, as well as the funds earmarked for imported goods and services, will gradually increase each year of the plan.

NEPA's outlook is surprisingly optimistic, forecasting that "By the year 2000, as China's economy develops, environmental pollution will be basically brought under control." This optimism might reflect a naive assumption that China believes it can rely on foreign assistance to solve its environmental problems. Indeed, NEPA's report, which was presented as China's official statement at the Rio Summit, notes that "the international community should provide [developing countries] with necessary financial and technical assistance to enhance their capabilities for participating in cooperation on global environment and development." While the international community has already displayed a willingness to help China deal with some of its environmental problems, Beijing clearly will have to devote more of its own resources to complement these programs.

The World Bank's critical role

The chief source of outside funding for China's environmental projects is the World Bank, which has become increasingly concerned about environmental issues and the need for environmentally friendly development over the past few years. The Bank's current environmental lending program in China stresses the formulation of long-term programs to promote environmental protection and conservation of natural resources, as well as the provision of funding to bring about shorter-term improvements in these areas. Nick Anderson, senior project officer in the World Bank's China and Mongolia Department, estimates that the Bank will spend at least $1.2-1.5 billion on environmental projects in China over the next 4-5 years. But Anderson cautions that "the amount of environmental consulting work and equipment purchases to be funded by the World Bank are but a drop in the bucket compared to China's total needs."

By early 1992, 11 environmental projects were in the World Bank's China pipeline. In keeping with the Bank's overall strategy that "local participation in setting and implementing environmental policies will yield

high returns," many of these projects are aimed at improving environmental measures in key cities or provinces. An example is the Beijing Environment Project, which was approved last December. The World Bank provided $125 million to finance hazardous waste management, solid and liquid waste treatment facilities, the provision of district heating, and environmental consultancy services.

In June, the Bank's executive directors approved $100 million for the Tianjin Urban Development and Environment Project, which will provide technical assistance and training to help develop solid waste disposal, public transport, and environmental monitoring and management systems. A second component of the project will support investments in environmental sanitation (to improve drainage, sewerage, and solid waste management) and public transportation. The project also calls for the establishment of a special fund to help industrial enterprises finance investments aimed at minimizing the release of pollutants.

Similar projects targeting Changchun ($120 million in World Bank funding) and Shanghai ($150 million) are likely to come before the board in the next 6-18 months. Both of these projects are slated to provide funds for consultancy services and equipment purchases to improve water quality, waste management, and municipal planning capabilities. Comprehensive projects that will tackle similar issues at the provincial level are also being planned for Zhejiang, Liaoning, and Jiangsu provinces.

Even World Bank projects not specifically aimed at upgrading the environment now incorporate environmental components. The Zouxian Thermal Power Plant Project ($311 million), approved in April, for example, includes technical assistance funding to study the impact of thermal power plants on air quality in China's coastal regions. Similarly, the Jiangsu Chemical Sector Project ($100 million), which will likely be approved this fall, includes funding to establish a hazardous and toxic waste management center.

US companies sold a modest $40 million worth of pollution control technology to China in 1991.

Providing an entree

The impact of the Bank's program on China's environment cannot be underestimated. Moreover, World Bank projects offer foreign companies a low-risk means of entering the China market, as the Bank provides foreign exchange for Chinese purchases of foreign goods and services. While some companies have complained of inequities within the international competitive bidding process guiding World Bank tenders, most companies still look upon World Bank projects as a means of establishing a base for future dealings with China (*see The CBR*, January-February 1991, p. 44).

International Development Planners (IDP), a San Francisco-based consulting firm, has participated in several World Bank-sponsored projects in China. The company recently won a $195,000 tender under the Beijing Environment Project to study cleaner techniques for producing vinyl acetate, an intermediary plastic product manufactured by a Beijing chemical plant. Sam Tsui, IDP's executive vice president, notes that "The new policy direction of the World Bank definitely opens up new opportunities for foreign environmental companies. Even the industrial projects undertaken by the Bank now have environmental components."

Newcomers to China also find that World Bank environmental projects provide a good entree to the broader Chinese market. Pennsylvania-based consulting firm Four Nines, Inc., for example, will be conducting a feasibility study on hazardous waste treatment in Wuxi as part of the Southern Jiangsu Environment Project. Though the company has no previous experience in China, Peter Williamson, a principal in the company, hopes that the Jiangsu study will lay the groundwork for other work in China. "If we are successful and the Chinese build a hazardous waste facility according to our design, we would hope to approach other provinces with the results of this pilot project."

ADB gears for green

Another important multilateral lender in China, the Asian Development Bank (ADB), has been slowly regaining steam since its virtual freeze on all China projects after June 4, 1989. Like the World Bank, the ADB provides significant project opportunities for US companies, and its agenda has begun to include more environmental projects. Between 1988-91, six technical assistance grants totalling over $2 million were approved for environmental programs in China, many of which were aimed at building the institutional capacity for environmental planning at the national, provincial, and local levels.

In 1991, ADB staff prepared several potential loan projects targeting the environment in China, all of which have yet to be presented to the board. The Industrial Energy Conservation and Environmental Improvement Project, the largest of these projects, is aimed at implementing energy conservation and industrial pollution control measures in the fertilizer, cement, and metallurgical industries. ADB financing, tentatively estimated at $104 million, will be used in part to finance equipment and machinery purchases for fertilizer, cement, and iron and steel plants.

The Qingdao Environmental Improvement Project will likely provide $87 million to improve the quality of the air and coastal waters of Qingdao municipality. Foreign consultancy services and equipment will probably be required for the coal gasification, district heating, and wastewater-treatment facilities outlined in the project. A $100,000 technical assistance grant to prepare the project was approved in 1991, and a $300,000 technical assistance grant to boost the institutional capabilities of the Qingdao Environmental Protection Bureau to monitor and assess environmental matters will be piggy-backed to the project loan approval.

Over the next few years, the ADB seems likely to approve one or two large environmental loans each year, in addition to a number of smaller technical assistance grants. In 1992, for example, ADB technical assistance grants for China will provide around $3 million for five projects involving industrial pollution control, global climate change, water pollution control, and institutional support. In 1993, 11 separate environmental technical assistance grants totalling over $8 million are expected to be approved. Of potential interest to US companies are several projects targeting energy conservation in the industrial and power sectors. As the ADB's technical assistance program is often used to develop full-scale projects later on, the jump in such environmental grants is a strong indicator that more large-scale environmental loans might soon appear in the ADB pipeline.

Tapping the Global Environment Facility

Two other sources of limited funds for environmental programs, the United Nations Environment Programme (UNEP) and the United Nations Development Program (UNDP), may also become bigger players in China's environmental protection efforts. UNEP, which has been involved in a few water and desertification projects in China, has a small annual budget of slightly over $1 million for programs in the entire Asia-Pacific region. These funds are generally not used for equipment and consultancy services, but instead are employed to catalyze action and funding from other sources. At times, UNEP works closely with UNDP, which has roughly $35-40 million to spend on projects in China each year. UNDP's 1992-96 China program places heavy emphasis on environmental projects.

Investment and sales in China's environmental sector would be enhanced by a stronger financial commitment by Beijing to make the environment a higher priority.

Together with the World Bank, both UNDP and UNDP are responsible for administering projects under the Global Environment Facility (GEF), a multilateral effort initiated in 1990 by a group of 24 countries, including China. The GEF will cover the "incremental costs" of globally friendly development projects undertaken by developing countries. In China, the GEF has earmarked $30 million to set up monitoring programs and treatment facilities to reduce indiscriminate dumping of ships' waste into international waterways. This project, like several other GEF proposals, is designed to complement World Bank or UNDP funding; the Bank's Sichuan Gas Project may also be financed in part with GEF funds.

The GEF, which started out as a heavily European initiative, now seems headed for stronger international backing. The facility is expanding from its current 32 member countries to universal membership. At the Rio summit, world leaders agreed to double or possibly triple the fund's $1.3 billion budget (for its 1990-92 operational phase), and designated the GEF the primary funding mechanism for projects on global climate change and biodiversity. Nick van Praag, an advisor to the GEF, notes that "The GEF operational phase suggests that countries like China and India will get a disproportionately large amount of resources because they use a disproportionately high amount of fossil fuels."

At this time, it is not clear what level of funding—or what types of projects—will be earmarked for China under the GEF replenishment. So far, however, China has received $42 million in GEF funds for three projects (ship waste, coal-bed methane, and greenhouse gas), while an additional $30 million for the Sichuan Gas Project and a biodiversity project may be approved in the next 6-18 months. Though the US government to date has not contributed to the GEF, US firms can bid on GEF consulting and equipment tenders, which will be contracted according to international competitive bidding procedures. It is likely that consulting firms with experience in industrial pollution abate-

ment, marine pollution, and other types of environmental clean-up efforts will find opportunities with GEF projects.

The US contribution

Unlike the efforts of other countries, the US government's environmental aid to China relies on bilateral programs rather than GEF or concessionary funding. Until the sanction prohibiting US Trade and Development Program (TDP) activities in China is lifted, the US Environmental Protection Agency (EPA) will likely remain the key source of US environmental programs in China.

Since EPA and NEPA, its Chinese equivalent, signed the US-PRC Environmental Protocol in 1980, institutional collaboration between government and academic environmental research establishments in the two countries has flourished. Current collaborative efforts under the EPA-NEPA protocol include environmental health studies, water pollution studies, marine pollution prevention, and ozone protection.

US-AEP has a $100 million budget from AID to help boost US exports to Asian countries.

A stated goal of EPA's program is to "facilitate US commercial opportunities in the field of pollution control technology and engineering." Though it provides no funding for actual sales, EPA works closely with NEPA and the industrial ministries to demonstrate the efficacy of advanced technologies for energy efficiency and environmental protection. While concentrating on quantifying the benefits of incorporating such technologies in China, EPA also provides US companies in this sector with information on opportunities in China. Dina Kruger, manager of EPA's coal-bed methane project, notes that "EPA is working to create markets in China for less-polluting and more energy-efficient technologies—and US firms are well-positioned to compete in these markets."

EPA, along with other US government agencies, has a hand in shaping the direction of a new US initiative, the US Asia Environmental Partnership (US-AEP), which was announced by President Bush in early 1992. To be organized under the auspices of the US Agency for International Development (AID), the partnership was formed to "encourage the sustainable development and maintenance of environmental quality in Asia through mobilization of US private and public sector expertise and technology." US-AEP has a five-year, $100 million budget from AID to help boost US exports to Asian countries, though it will not finance sales or feasibility studies. Instead, the program will establish environmental business centers in several Asian cities and a professional exchange program to familiarize Asian environmental planners with US technologies.

Once the program becomes fully operational in late 1992, US-AEP is also expected to play a clearinghouse role to provide US suppliers with intelligence on specific project opportunities in the Asian region—and faster access to export financing and licensing, if needed. AID restrictions on providing funds to non-AID eligible countries such as China, however, cast some doubt on how actively the US-AEP can promote US exports to these markets.

The US efforts to beef up American

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environmental programs in China run parallel to attempts by other countries. US companies, however, cannot rely on the US government to supply competitive financial arrangements, which leaves them at a distinct disadvantage in China. Austrian, Italian, and German companies, in contrast, have recently won a number of contracts for pollution abatement equipment, thanks to concessionary or "soft" loans. Tough competition from foreign companies backed by concessionary financing resulted in a modest $40 million in US sales of pollution control technology to China in 1991. According to the US Department of Commerce (DOC), the US share constituted a mere 20 percent of China's estimated $200 million import market last year. Though DOC ranks China 20th in terms of global markets for environmental technologies—behind Taiwan, Singapore, Mexico, and other countries—the agency projects a respectable 8 percent annual growth in US sales to China in this sector between 1992-93.

Chinese officials, in contrast, appear more interested in foreign investment than in foreign sales. The China Environmental Protection Co. (CEPCO), for example, is keenly promoting investment opportunities in the environmental products sector. CEPCO, which falls under the auspices of the Ministry of Machine-Building and Electronics Industry, is responsible for disseminating new environmental technologies, developing new environmental protection products, and conducting technology transfer deals. According to recent interviews with CEPCO officials in Beijing, the Chinese government is actively looking for foreign cooperation in developing and manufacturing equipment to control particulates and other forms of air pollution, chemical and other water-borne waste, and solid waste. In addition, investment is sought for the production of portable monitoring equipment to measure air and water quality, as well as noise levels.

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Beijing's investment wish-list, for the most part, has prompted extremely cautious interest from US environmental companies. Most have stayed away from investment projects, citing concerns that China's intellectual property protection is lacking or that they would be expected to provide advanced technologies for free—either of which could seriously damage their global market shares. Some US companies are also wary that any joint venture operation in China would be forced to export its output, rather than sell it on the domestic market. NEPA officials confirm that foreign ventures in the environmental products sector are accorded little special treatment, which suggests that such ventures would be subject to normal Chinese restrictions on domestic sales.

Paying now... or later?

Clearly, investment—and sales—in the environmental sector in China would be enhanced by greater flexibility and a stronger financial commitment by Beijing to make the environment a higher priority. The current posture of advocating greater spending on the environment only after China is rich enough to afford the clean-up—an attitude adopted in the past by Japan, Taiwan, and even the United States—won't do much to help prevent the continuing degradation of China's environment or to encourage foreign private sector involvement to help combat the problems.

But a greater commitment is unlikely as long as Beijing single-mindedly pursues its industrial development goals, with little thought of the environmental trade-offs. The government seems to be taking a two-faced approach; NEPA's annual report stressed China's great need for international financing, yet also claimed that "environmental quality was stable and pollution did not get worse while GNP doubled between 1980-90"—a statement few residents or visitors to China during the 1980s could easily support. Until Beijing accepts the reality that China's environment is already paying dearly for the country's economic development, the country's 1.2 billion residents will continue to be subject to unhealthy air and water. And suppliers of foreign environmental technologies which could improve the situation will likely have to resort to foreign-funded projects in order to sell their products and services to China. 完

Saving Hong Kong's Environment

Big-ticket "green" projects are competing with PADS for government funding

Henry S. Richmond

Long known as Asia's "fragrant harbor," Hong Kong is rapidly acquiring a reputation for some not-so-fragrant problems—the degradation of its air and water. Each day the territory's 6 million residents generate 23,500 tons of general municipal waste, along with 2 million tons of sewage and industrial wastewater. Enough toxic metals are dumped daily into Hong Kong's harbor to construct one of its famous double-decker buses. Though the economy may be booming, Hong Kong's environment is paying the price.

The Hong Kong government, however, has adopted a comprehensive plan to combat the territory's most pressing environmental problems. The plan calls for estimated public expenditures of $4 billion (all figures are in US dollars) up to the year 2000. This level of spending could translate into sizable purchases of foreign technologies in the next few years, particularly from US firms, which already command a 20-percent share of the environmental technologies market in Hong Kong. The bulk of the new opportunities will be in the treatment and disposal of solid and liquid wastes, but there likely will be need for other environmental services as well.

Getting tough on polluters

Between 1980-92, the Hong Kong government issued five major pollution control regulations to deal with waste, water pollution, air pollution, noise control, and protection of the ozone layer. According to Paul Holmes, acting assistant director of the government's Environmental Protection Department (EPD), the laws are enforced "vigorously, but not yet comprehensively."

Foreign-sourced products and services are anticipated to account for about 80 percent of environmental expenditures undertaken in the white paper plan.

In 1989, the government stepped up its environmental efforts with the issuance of its "White Paper on Pollution," the basis for a comprehensive 10-year plan to restore the territory's environment. The impetus for the paper was the realization that Hong Kong's air and water quality had deteriorated to near-crisis proportions. The plan calls for the adoption of new environmental legislation and projects, and includes over 100 separate environmental initiatives. Thus far, virtually all of the plan's legislative goals have been implemented, along with many of the initiatives. In 1991, for example, the Water Pollution Control Ordinance was strengthened by the introduction of a memorandum setting new minimum requirements for effluent discharges.

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As Hong Kong's environmental equipment and services industry is relatively undeveloped, foreign-sourced products and services are anticipated to account for about 80 percent of environmental expenditures undertaken in the white paper plan. In particular, low-waste industrial processes, pollution-abatement equipment, new chlorofluorocarbon (CFC)-free solvents, recycling and recovery systems, and extensive engineering and design work will probably be demanded. Other promising areas for US companies include the provision of low-emission motor vehicles and low-noise construction equipment.

Noise-reducing barriers for roads and railways are also being targeted; the Kowloon-Canton Railway, for instance, is spending $64 million to install such barriers. Hong Kong's EPD believes there also will be a growing demand for asbestos consultants, contractors, and laboratories to support new asbestos abatement laws.

Setting priorities

In a city where 21 million plastic bags are disposed of daily, the Hong

Kong government has given highest funding priority to solving the territory's solid waste problems. The white paper plan allocates roughly $2 billion for the construction of new landfill sites between now and the year 2000, but acknowledges that the current volume of solid waste threatens to overwhelm the territory's existing landfills before new ones can be added. The government has spent $1 billion thus far to improve solid waste disposal facilities, including a pilot program to recycle construction waste into the port and airport development scheme (PADS) land reclamation works. Such efforts have had a limited impact, however, as Hong Kong's volume of overall waste doubled between 1991-92.

Currently, old, inefficient landfills and incinerators located within the commercial centers of Hong Kong are being shut down and replaced by a series of refuse transfer stations. By next year, these stations will begin to supply waste to the first of three environmentally sound landfills located in remote areas of the New Territories. These landfills will supposedly be able to control methane and leachate leakages. Each will be able to accommodate between 35-57 million tons of refuse, which should be sufficient capacity to last one or two decades.

US companies have been quick to capitalize on the opportunities presented by Hong Kong's waste disposal goals. Texas-based Browning-Ferris Inc. teamed up in 1990 with Swire, one of Hong Kong's oldest trading houses, to win an estimated $90 million bid to supply two refuse transfer stations. American consulting companies such as Camp Dresser McKee, Donohue (now part of Waste Management Inc.), and Black & Veatch have also won lucrative Hong Kong contracts in the past two years, for the design of solid waste disposal systems.

Tackling air pollution

Some early successes have also been apparent in the war against air pollution. In 1990, the government's Air Pollution Control Ordinance (APCO) was tightened considerably to limit the sulfur content of coal for industrial use to 0.5 percent, a sharp decrease from the previous average of 2.5 percent. The amount of sulfur dioxide in the air has since dropped by more than half in most areas, and up to 80 percent in certain industrial zones. APCO also called for the introduction of unleaded fuel at all filling stations as of April, 1991. Though initial use of unleaded gas reached 70 percent for private cars, usage levels have now dropped to about 40 percent, largely because old habits die hard; consumers continue to perceive leaded fuel as delivering more power. To date, ambient lead levels have not dropped very much, though there is some hope that new EPD rules allowing new car registration only for vehicles fitted with three-way catalytic converters will encourage the use of unleaded gas.

A top priority is to safely dispose of the 110,000 tons of chemical waste generated by Hong Kong's manufacturing firms each year.

APCO's regulations also call for tight controls on the clean up of asbestos, a hazard primarily found in Hong Kong's construction and energy sectors. US firms, however, have been slow to cash in on asbestos-removal opportunities, and much of the work has been contracted locally.

On other environmental fronts, Hong Kong has made less progress. Though EPD air quality standards are stricter than those in the United States, air pollution remains a problem. Joggers, for example, risk lung damage by exercising in most parts of the territory, as particulate and nitrogen dioxide levels consistently exceed EPD safety levels. Strict rules on CFC emissions can claim at least partial success for reducing the amount of ozone-depleting substances Hong Kong releases into the atmosphere, though the decline also stems from the fact that heavy CFC-producing industries are leaving Hong Kong for less-regulated places nearby, including southern China.

Treating chemical waste

Another priority outlined by the government's plan is to safely dispose of the 110,000 tons of chemical waste generated by Hong Kong's manufacturing firms each year. Few residents feel comfortable swimming in Hong Kong's murky waters, even in the more remote countryside beaches. Though safe drinking water is not generally a problem in Hong Kong, industrial wastes can cause serious health problems for those who eat local shellfish. Mussels collected on one of Hong Kong's beaches last year, for example, were five times more toxic than the maximum international limits.

Under the tough new laws mandated by the government's white paper, the EPD will monitor the transfer of chemical wastes from their point of generation to their final disposal at a chemical waste treatment plant to be completed in late 1992 on Tsing Yi Island. US companies bid actively on the treatment plant, with Waste Management Inc. winning the $125-million contract to build the facility. Once the Tsing Yi waste treatment plant becomes operational in 1993, the EPD will also require specific industries, such as those using electroplating and other metal-processing techniques, to adopt metals recovery systems to reduce the amount of toxic metals released as effluent.

Cutting sewage funds

Improvement of Hong Kong's antiquated sewage system, which currently allows over 1 million tons of untreated sewage to be dumped each day into Victoria Harbor, was also designated a priority by the government in its white paper. To the dismay of tourists and local residents, however, a program to tackle the pollution problem in the harbor has been delayed until 1997, due to "lack of resources." Thus far, only $10 million of the $133 million minimum called for in the white paper for the harbor cleanup has been committed.

Other sorely needed sewage programs are also at risk, as PADS funding seems to be pre-empting environmental funding. At the same time, legal measures to clamp down on water polluters by making all of Victoria Harbor a water control zone—where any dumping would land the offender in jail—have been postponed from 1993 to 1997. The harbor's east and west buffer areas, however, will be declared water control zones in 1993.

Most of the money needed to tackle Hong Kong's water problems would be used to develop a sewage network to treat and dispose of waterborne pollutants. This capacity will become increasingly critical in the next few years, as the completion of the PADS project is certain to alter water flow in the harbor, leaving toxic pollutants and sewage trapped along the densely populated shoreline. As originally outlined in the government plan, the sewage program is to be implemented in two stages, each costing over $1 billion. The "Sewage Masterplan" is concerned with the collection of sewage, including rehabilitation of the present system. The "Sewage Strategy Scheme," on the other hand, focuses on construction of treatment plants and the ultimate disposal of clean human, animal, and vegetable wastes through a deep ocean outfall into the South China Sea.

The Sewage Masterplan is partially underway, involving mostly UK companies, but the Sewage Strategy Scheme has been put on the back burner due to lack of funds. However,

The money to undertake both PADS and the environmental projects is there, at least on paper.

the Hong Kong government is taking a hard look at funding the scheme through a special sewage disposal charge to be levied on taxpayers and polluters. The government is also reportedly considering establishing a wholly government-owned "sewage corporation" which would charge user fees for its services. If a decision is reached to move ahead with one of these plans, there likely will be significant sales opportunities for US engineers and contractors, as well as for suppliers of pipes, pumps, valves, screens, and other equipment.

Breaking into the suppliers' circle

US companies generally appear quite optimistic about their chances of winning environmental contracts in Hong Kong. Up until a few years ago, such optimism would have been rare, as British engineering firms based in Hong Kong had long maintained a virtual stranglehold on the consulting and supplier markets for the government's few capital works projects. Nor were there any legal incentives to encourage industry to pay for equipment that limits pollution at its source. But now, the size of Hong Kong's proposed environmental agenda requires a much wider pool of potential suppliers.

Procurement of environmental equipment and instruments is conducted by the Government Supplies Department (GSD), which operates without any detectable national bias. Indeed, US contractors currently occupy the top selling position, supplying 30 percent of GSD's purchases in all sectors.

At the same time, US companies have become more adept at bidding in Hong Kong over the last few years. In many cases, successful bids have been made by US companies that have formed strategic alliances with local British or Hong Kong companies. Black & Veatch, for example, worked with Balfours to design a refuse transfer station in Sha Tin; Greiner Engineering joined with Maunsell to provide environmental planning for the new Chek Lap Kok airport; and Parsons Brinckerhoff collaborated with Haswell on tunnelling work for the new sewage lines. An added benefit to this approach could be the chance to re-export US technologies to newly emerging economies in nearby Macao, China, Thailand, Malaysia, and Indonesia through a Hong Kong partner.

US companies without local partners should assume that they will be at a competitive disadvantage in the public procurement process for environmental services

US companies without local partners should assume that they will be at a competitive disadvantage in the public procurement process for environmental services—to date, no solo US bid seems to have been successful. To improve their chances of winning, solo US firms must be able to demonstrate visible superiority over local firms in terms of price, design, and technical expertise. For sales to the private sector, US companies will also have to do a good job of demonstrating the efficacy of their technologies.

A number of specific opportunities exist for US companies interested in participating in Hong Kong's environmental agenda (*see* list). The EPD has asked for the US Consulate's help in

Major Waste Disposal Projects Planned for Hong Kong

Refuse transfer stations to be developed under design-build-operate contracts

1993
Sha Tin: $28 million capital cost, $5 million/year operating cost
Island West: $86 million capital cost, $4 million/year operating cost

1994
Yuen Long: $17 million capital cost, $3 million/year operating cost
Kowloon West: $51 million capital cost, $4 million/year operating cost
Outlying Islands: $13 million capital cost, $2 million/year operating cost

1995 and beyond
North Lantau: $51 million capital cost, $4 million/year operating cost
Tai Po: $13 million capital cost, $2 million/year operating cost
Tuen Mun: $13 million capital cost, $2 million/year operating cost

Landfills to be developed though long-term design-build-operate contracts

1992
Western New Territories: $405 million capital cost, $10 million/year operating cost

1993
Southeast New Territories: $413 million capital cost, $15 million/year operating cost
Northeast New Territories: $236 million capital cost, $9 million/year operating cost

Other waste facilities and programs

1992-95
$26 million facility to separate material that can be used for land reclamation from the 16,000 tons of waste delivered daily to Hong Kong's landfills

1992-97
$125 million to ensure safety at existing landfills and plan for future beneficial uses of landfill areas

1993-95
$21 million centralized incinerator facility for hospital waste and animal carcasses

1995 and beyond
$35 million conventional municipal waste incinerator to serve the entire territory

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introducing American expertise in the disposal of sludge, medical waste, and radioactive materials. While these opportunities are not of the magnitude of the solid waste and sewage projects, they still present good business. And, as most of Hong Kong's needs in these areas involve sales rather than build-operate-transfer investment, little capital expenditure—and therefore, little risk—is involved.

Another area for American suppliers to target is the private market for compact-sized pollution abatement equipment, which could grow to around $150-250 million annually. Demand for devices such as ion-exchange recovery systems to recapture toxic metals from textile dyeing and electroplating facilities is expected to skyrocket once the government begins to enforce its current environmental laws—perhaps with stiffer fines—in the next year or two. When this happens, there will be thousands of firms seeking effective, low-cost (under $10,000) pollution-control units that will fit into 50-100 sq ft spaces on the upper levels of multi-story industrial buildings. Though Chinese firms currently dominate the market for this equipment, US products could compete if they were well-engineered and competitively priced. The top need is for clean technologies at the "front-end" of the manufacturing process—an area where US companies are far ahead of the Chinese competition.

Charting a course

The future of environmental projects in Hong Kong—and the future of Hong Kong's environment itself—boils down to whether adequate resources will be allocated and used. The Legislative Council, which has become increasingly sensitive to the growing public dismay over open sewers in the territory's new towns, is pushing harder for more pollution controls and the money to support environmental measures. Estimated public spending on the environment in 1992 will be about $300 million—about 1-2 percent of public funding. By comparison, PADS funding will comprise about 25 percent of the government's total spending this year.

Yet the money to undertake both PADS and the environmental projects is there, at least on paper. The Hong Kong government's March 1992 budget forecast projected nearly $10 billion in cash reserves when the territory becomes a Special Administrative Region (SAR) of China on July 1, 1997. Similarly impressive amounts are stashed away in other government reserve accounts. After deducting the $3.2 billion which must go to the SAR government according to the terms of the Airport Memorandum signed by Britain and China in September 1991, there's still plenty of money left to do the environmental job, as well as to build the new port and airport. But as the government's policy is to link spending to annual GDP growth, the annual pie is small—and PADS takes a big bite. The result is limited funding each year for environmental projects.Whether the money for the Sewage Strategy and the other components of the white paper is, in fact, forthcoming depends to a great extent on the desires of the Hong Kong population. If they choose to stick rigidly to Hong Kong's traditional laissez-faire philosophy, which tends to put profits ahead of other considerations, prospects are grim indeed; the only green left in the territory's future may be its banknotes. The only way the EPD can carry out its mandate is with community support and funding from the legislature.

US suppliers with their own financing packages will find themselves welcomed with open arms.

There have been some recent indications that some of that support may be forthcoming. The Royal Hong Kong Jockey Club—a private club supported by Hong Kong's elite—has thrown its considerable financial weight behind an impressive environmental education program in the local school system, as well as a public awareness campaign on the environment. Moreover, 16 of Hong Kong's most prestigious *hongs*, or trading companies, have formed the Private Sector Committee on the Environment, which is tasked with exploring the role of market forces in cleaning up Victoria Harbor. In Kowloon's City Polytechnic, the committee is also supporting the highly successful Centre for Environmental Technology, a showcase for technology and equipment needed by the thousands of small, family-owned and managed manufacturing firms that are the backbone of the territory's economic muscle.

Regardless of the role of local business, US suppliers with their own financing packages will find themselves welcomed with open arms at the EPD's offices. Those seeking financial assistance may find some help at the US government's Export-Import Bank (Eximbank), which can provide fixed-rate loans and loan guarantees for US companies bidding on foreign contracts. Eximbank officials, however, have received no requests for export credits for Hong Kong's environmental projects, largely because the projects so far have been few and relatively small. If the $2 billion sewage scheme goes ahead, however, the size of its component projects may warrant Eximbank support.

Forging links with China

A final factor likely to play an increasingly important role in Hong Kong's decisions on the environment is the growing interdependence of the economies of Hong Kong and China as the territory approaches its 1997 reversion to mainland sovereignty. Though Beijing has persistently stated its fears that the PADS project will deplete Hong Kong's financial reserves, it has been fairly quiet on the territory's environmental spending plan. Of greater concern to Beijing than the cost of the plan seems to be the proposal to release treated sewage into Chinese territorial waters.

At the local level, environmental officials from Hong Kong and South China have held several meetings in recent months to discuss mutual problems and solutions, a sign perhaps that both parties recognize that action is needed now to preserve the environment that Hong Kong and southern China share. As technologies and equipment to make Hong Kong's industry more environmentally friendly have direct applications in the mainland, Chinese interest in Hong Kong's plans is both warranted and promising. US companies participating in Hong Kong's environmental programs, therefore, may find they can also advance themselves in the environmental market in China. 完

AMCHAM'S CHINA BOOKS

China Commercial Relations Directory

A bilingual, English-Chinese directory, published biennially. This year includes 119 companies. Also includes "statistical anatomy of China" in the form of 18 charts or listings reprinted with permission of leading research publications on China. A "China Travel" chapter which gives information on getting visas, transport connections. American business contacts in the country, and foreign exhibitions calendar. Now in its eight edition. List price: HK$215/US$34 (HK$175/US$29 for AmCham members).

PRC Business Firms in Hong Kong and Macau

A guide to over 400 firms compiled by a team of US government staff members and business people active in China.

Banking & Finance, Insurance, Oil Companies, Shipping Agents, Travel Services, Publishing and News Media: *Geographic* listings show company connections to national, provincial, urban and Special Economic Zone corporations of China. Also *Parent/Holdings firms* guide. *Products & Services* index and *Chinese-language* company names appendices: essays surveying nature and history of Chinese corporate presence in Hong Kong and Macau; US Commerce Department and Hong Kong Trade Development Council review economic impact and trends of Hong Kong/Macau/China connection. List price: HK$265/US$41 (HK$215/US$34 for AmCham members).

Hong Kong Connection — Doing Business in Guangdong Province

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* * * * * * * * *

The American Chamber of Commerce in Hong Kong
Room 1030, Swire House, Chater Road, Central, Hong Kong.
Tel: 526 0165 Fax: 810 1289
Tlx: 83664 AMCC HX
Mail Address: GPO Box 355, Hong Kong.

Who's Who in Hong Kong Communications

312-page book with four major categories: "Who's Who in Hong Kong Communications" carries extended paid listings of 115 companies, providing 65 categories of products & services. "Communications in the Hong Kong Context" includes 11 articles reviewing themes in advertising, public relations, publishing, desktop publishing equipment, and printing. "Professional Support in Hong Kong" includes a miscellany of 10 different lists/key documents. "Quick Contact File" is a telephone finders' guide to about 4,400 companies in Hong Kong, divided into 36 categories. List price: HK$215/US$40 (HK$175/US$35 for AmCham members).

Doing Business in Today's Hong Kong

A compendium of investment analyses covering the key sectors of Hong Kong's export-led economy, authored by active and successful executives in the territory's commercial life. Written by businessmen for businessmen, the authors of which are drawn from the membership of Hong Kong's largest grouping of foreign investors — The American Chamber of Commerce. List price: HK$245/US$44 (HK$195/US$38 for AmCham members).

Hong Kong Electronics Handbook/Directory

Hong Kong Electronics Handbook/Directory is divided into three major sections. The first introduces the manufacturing side of the industry with articles from people who know it.

"Sourcing guide" directory of 133 electronics companies describes their products and services, indicates if they do original equipment manufacturing (OEM), describes the nature of their manufacturing in China if any, and names their subsidiaries in Hong Kong, China and the region.

The last section of the book is a guide to Hong Kong's electronics services sector. It includes 10 different articles by authors active in each sector covered. List price: HK$215/US$34 (HK$175/US$29 for AmCham members).

Establishing an Office in Hong Kong

An annual service book which features Hong Kong context reviews of business services as varied as freight forwarding, law and architectural consulting. First-reference book for newcomers. Text material divided into 17 brief chapters intended to raise the right questions and offer the best references supported by six appendices with referrals to key organizations. AmCham business contacts and other sources. Five maps. List price: HK$195/US$32 (HK$165/US$28 for AmCham members).

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Hong Kong Scenarios

The territory's future may be murky but one thing is clear—Hong Kong is changing in fundamental ways

Kenneth Lieberthal

The autumn of 1992 finds Hong Kong in a relatively upbeat mood. Hard-line officials in Beijing have been thrown on the defensive by Deng Xiaoping's push for more rapid reforms and praise for Shenzhen—a show of support that should bode well for Hong Kong's economic future. But the volatile swings in Hong Kong's morale over the past decade belie the fragility of the current confidence. In order to better predict whether—and why—long-term confidence is warranted, it is necessary to identify and evaluate the underlying factors that will shape Hong Kong's future in the coming decade.

Ultimately, these factors point to two possible scenarios: one cautiously optimistic, and the other more pessimistic. At the present time it is impossible to state with certainty which will be borne out. But one thing is clear: Hong Kong will operate in an increasingly Chinese fashion in the run-up to—and after—its July 1997 reversion to the People's Republic of China. Foreign companies operating in the territory should expect a decline in the professionalism of Hong Kong's civil service, an increase in corruption, and a greater mainland presence in key sectors of the economy. Beyond these common features, however, the two scenarios differ considerably.

Reasons for optimism

Eight basic factors contribute to the view that Hong Kong will maintain its political stability and economic vitality both before and after its transition to Chinese sovereignty. Most of these factors stem from the territory's importance to the mainland's national and economic goals. They include:

Foreign companies should expect a decline in the professionalism of the civil service, an increase in corruption, and a greater mainland presence in key sectors of the economy.

• Increasing autonomy of Chinese localities

China's reforms have substantially transferred power, especially over economic matters, to provinces and their subordinate cities and counties. All indications suggest that this process will continue long into the future. Guangdong Province has perhaps gained more from this decentralization than any other area, and its growth is integrally connected to the Hong Kong economy, very much to the benefit of both sides (*see The CBR*, May-June 1992, p.13).

A question of major importance is, therefore, whether Guangdong will continue to enjoy the freedom to integrate its economy with Hong Kong's. The period since June 1989 has put this issue to a stringent preliminary test; after former Communist Party Secretary Zhao Ziyang—Guangdong's chief patron in Beijing—was removed from power, Guangdong successfully argued that its own stability was contingent on the continued expansion of ties with Hong Kong. Guangdong also blocked Beijing's efforts to insert a northerner into the province's upper leadership echelons. By early 1992, paramount leader Deng Xiaoping was hailing Guangdong as a model for China's opening to the outside world.

Beijing has been constrained in its approach to Guangdong because the province generates substantial hard-currency earnings and because the central government fears the potential social disruption a severe downturn in the Guangdong economy might produce. Guangdong's dynamism has, in short, reached the stage where Beijing can apply strong controls only at major cost to national priorities. As Guangdong's well-being is in turn dependent on Hong Kong's, Beijing must also be careful in its approach to the territory.

• Desire for stability

To date, both Hong Kong and China have taken care to maintain stability during the transition period. Each side is pursuing a policy that involves more than a little brinkmanship, as each tests the resolve of the other on economic and political matters. The transition period, therefore, undoubtedly will witness one "crisis" after another, along with considerable tension between the two sides. But the record so far—including the various agreements over the airport development project—suggests that both Hong Kong and Beijing are keenly aware of

Kenneth Lieberthal is a research associate and professor of political science at the Center for Chinese Studies at the University of Michigan. His most recent book, co-authored with David Lampton, is Bureaucracy, Politics and Decision Making in Post-Mao China *(Berkeley Press, 1992).*

the importance of not letting tensions get out of control. Though misjudgements certainly remain possible, each side has a sober understanding of the enormous stakes involved, and this awareness should provide some basis for confidence about the future.

• Elite links

A prosperous Hong Kong is in the personal interests of powerful mainland figures, many of whom have participated directly in China's forays into Hong Kong's economy. China's business activities in Hong Kong have taken many forms, including purchases of property, investments in firms, establishment of banking services, and development of trading companies. Although it is impossible to obtain precise figures, it is estimated that Chinese investment in Hong Kong totaled $15 billion by the start of 1992.

These investments have given many Chinese mainland entities—including government units, enterprises, and individual officials—a concrete interest in Hong Kong's continued well-being. Perhaps even more important, however, a good number of China's key ruling families have children who have obtained lucrative positions in the Hong Kong economy. These personal family interests provide some assurance that Chinese leaders will not deliberately kill the goose that lays the golden eggs in their own personal nests.

• Growing foreign protectionism

For purposes of foreign trade, China counts on other countries regarding Hong Kong as a separate tariff area, particularly when it comes to the negotiation of controlled-market agreements, such as textile quotas. It will remain very much in China's interest to maintain a Hong Kong economy sufficiently distinct from its own so that other countries—especially the United States—will not feel compelled to fold Hong Kong into their agreements with China. In the years following 1997, China will almost certainly try to avoid measures that would trigger international actions to take away Hong Kong's separate treatment, such as nationalization of foreign enterprises.

• Growing clout of Hong Kong business leaders

Hong Kong businesspeople who have promoted economic ties with the mainland look forward to being a part of the ruling elite in Hong Kong after it reverts to Chinese sovereignty. These individuals, such as Y.K. Pao, Gordon Wu, T.S. Lo, and T.K. An, are by no means Beijing's stooges—they are astute and highly successful entrepreneurs who have made their fortunes in Hong Kong's free-wheeling capitalist economy. They seek to maintain this type of economy after 1997, and to date, the leaders in China have shown considerable desire to court them.

• Desire to maintain flow of foreign technology and investment

Hong Kong provides skills that are critical to China's foreign trade, even though foreigners may now deal directly with endusers and suppliers in the mainland. Indeed, many companies that focus on trade with China have established their regional headquarters in Hong Kong, as the territory's financial institutions, transport facilities, and communications capabilities make it a more efficient place from which to run their China activities. If Hong Kong's business infrastructure were to erode, no city in China could replace it any time soon.

• Emergence of Greater China

One of the main goals of the current Chinese leadership is to bring together "Greater China"—the PRC, Hong Kong, Taiwan, and Macao—into one economic and sovereign entity. Hong Kong is one of the key pieces in this puzzle; Taiwan, the other. The PRC's policies toward Hong Kong are immediately felt and understood in Taiwan, and policies that undermine Hong Kong's free economy will have adverse effects on Taiwan's attitude toward the mainland.

Simply said, Beijing seeks a relationship with Taiwan similar to those it will have with Macao and Hong Kong: a high degree of local autonomy and the preservation of different social, economic, and political systems in exchange for recognition of Beijing's sovereignty. Should Beijing fail to effectively implement this policy in Hong Kong, the PRC leadership's prospects for reunification with Taiwan will become dim.

Aside from considerations of national pride, reunification with Taiwan is important to Beijing because Taiwan would immediately become China's wealthiest province. Even more important, Taiwan's businesspeople have acquired knowledge and skills that are crucial to China's economic development. The incentives not to run afoul of Taiwan's sensibilities, therefore, are very powerful in shaping Beijing's conduct toward Hong Kong.

• Fear of alienating Japan

The large amount of Japanese investment in Hong Kong provides Beijing with another incentive to make Hong Kong a successful example of the "one country, two systems" formula. Stability and prosperity in Hong Kong will reflect well on the reputations of Chinese leaders, while large financial losses in Hong Kong could have adverse repercussions for Japanese economic ties with the mainland. Japanese firms are generally prudent investors, and their recent plunge into Hong Kong suggests that they feel the territory has a solid future (*see The CBR*, May-June 1992, p.11).

The above eight factors establish two basic points. First, China's leaders have very strong incentives to maintain

Photo courtesy of HKTA

Fearful of Beijing's intentions, an alarming number of Hong Kong's professionals have been seeking to emigrate since 1989.

the stability and prosperity of Hong Kong, and they are well aware of the importance of doing so. Second, basic underlying trends, such as the devolution of economic decisionmaking, work in Hong Kong's favor and link it closely to one of the fastest growing economic regions in the world.

Factors calling for a cautious outlook

Despite these forces working in Hong Kong's favor, many things could go wrong. The major dangers to the territory's future stem not so much from malevolent decisions made by Beijing, as from the dynamics of the Chinese system and the transition period itself. These factors include:

• Brain drain

Fears of an uncertain future are prompting many Hong Kong Chinese to try to obtain foreign passports. The rate of emigration during 1990-91, for instance, exceeded 1,200 people per week. Unfortunately for Hong Kong, a substantial proportion of those who are leaving are bilingual professionals who have critical management skills. Large losses of bank managers, for example, are weakening the Hong Kong banking system. Secondary and tertiary schools are losing much of their academic staff—to the point where the territory's ability to continue to train new generations of white-collar workers is beginning to become questionable. There are also fears that much of the territory's legal establishment might go elsewhere during the coming five years. An independent, rigorous court system has been critical to Hong Kong's economic strength over the decades, and a decline in the judiciary system would diminish the attractiveness of the territory as a financial and business center.

Hong Kong's 175,000-strong professional civil service is another previous strength of the territory that is beginning to wane. London will allow 50,000 of these individuals and their families to obtain right-of-residence in the United Kingdom after 1997; there is already talk of the resentment and back-biting this measure will produce as 1997 draws nearer and many civil servants must come to grips with the reality that their bosses will leave—but they themselves may not. Clearly, there is a danger that at some point those left behind will seek to make deals that will give them a "leg up" with the Chinese after the transition. This possibility becomes particularly worrisome when applied to the police and customs administrations and to the intelligence apparatus.

• Political instability in China

Mainland politics will play a critical role in Hong Kong's future, and the Chinese political system currently is not in good shape. Formally retired elders in their eighties effectively have a stranglehold on decisions of major importance. Throughout China there is dissatisfaction with this situation—and great uncertainty about what will follow it.

Popular discontent, however, need not necessarily lead to political chaos. China's formidable military and police forces abhor instability and popular unrest. The Chinese people as a whole, moreover, seek a strong and unified state; there is little support for dissolution of the country itself. The country's tumultuous modern history has also created a population that fears the breakdown of public order.

Still, two factors in particular bode ill for the coming years in Chinese politics. First, there is no formal mechanism to govern the selection of a successor when Deng Xiaoping exits the scene. Severe political infighting is a virtual certainty. The question is whether the battle can be kept behind closed doors so that a reasonably united front is presented to the populace. If this can be done, basic political stability is likely to be achieved. If, however, the leadership becomes openly divided, the security forces might be paralyzed by uncertainty over how to respond. The result could be upheaval among the urban populace, and China could experience a period of dramatic social and political unrest.

The second broad problem is that the Chinese political system has become relatively undisciplined and corrupt in recent years. The deterioration of the political apparatus has not only prevented conservative forces from cracking down as they have wished since 1989, but will probably also inhibit reformers from implementing a sustained, coherent program if they should emerge victorious from the 14th Party Congress this fall.

This situation could have several consequences for Hong Kong. First, if reformers were to seize the reins of power in Beijing and announce bold new reforms, Hong Kong's level of confidence would rise very rapidly, perhaps even producing a period marked by near-euphoria. There seems to be a mild case of this now. Corruption and lack of discipline, however, would probably prevent the reformers from sustaining a coherent program—and this might deepen the sense of malaise in Hong Kong.

Second, major upheaval during an unresolved succession could hurt the Chinese economy and might send waves of refugees streaming into Hong Kong. The uneven economic development of different parts of China—combined with Beijing's deteriorating capacity to limit population growth and movement—threatens to spark waves of migration from China's interior to Guangdong and other coastal regions. Already, Guangzhou municipality must turn back an influx of 2-3 million economic migrants each winter around the Chinese New Year. Migrations on a much larger scale cannot be ruled out, and these might spill over into Hong Kong.

Tumultuous politics in Beijing or significant social upheaval and repression elsewhere in China would also further fuel the urge of Hong Kong residents to flee the territory. In addition, Hong Kong itself might get drawn into political developments on the mainland, as occurred in 1989. Beijing might then seek to crack down on this interference.

• Corruption of Hong Kong's business culture

The PRC's political culture runs counter to Hong Kong's laissez-faire economic system. Beijing's natural inclination is to have little tolerance for individual initiative and critical thinking, and its concerns about Hong Kong have led it to begin in subtle ways to apply pressure to curb the territory's lively and diverse press. These efforts, which reportedly include compiling dossiers on various journalists in Hong Kong, are already raising tensions in the territory.

Hong Kong and China also have vastly different approaches to economic competition. Hong Kong has fared well to date in large part because it has proven very adaptable to changing circumstances and has not been stymied by a slothful bureaucracy. It has been ruthless toward failure and has handsomely rewarded success. While this system has exacted tremendous costs on particular individuals and groups at various times, it has kept Hong Kong's economy nimble and dynamic.

China's approach to economic failure could not be more different. Beijing protects failing enterprises with subsidies and other forms of aid. China's leaders seem to associate bankruptcies with potential instability and there are indications that they almost unconsciously apply this perspective to Hong Kong as well. For example, China has directed investment to failing but politically significant enterprises in the territory, such as the Conic Group, an electronic component manufacturer with close ties to Taiwan.

There are now numerous economic entities in Hong Kong that are either owned by mainland units or that have equity investments from various mainland bodies. Little is known about the economic dynamics (or even the ownership) of many of these firms. But as their numbers grow, Beijing's willingness to permit failures may diminish even further. This protective approach may inadvertently pose a significant danger to Hong Kong's ability to adapt to international competitive pressures and may thus undermine the economy's dynamism.

Hong Kong's adaptibility may be further undermined by growing corruption in the territory. As the interface between Hong Kong and the mainland grows wider during the coming years, Hong Kong businesspeople will find it increasingly difficult to resist pressures for corrupt dealings. Such corruption will have an adverse impact on the Hong Kong economy, and will be exacerbated by the decline in the professionalism of the civil service.

- **Lack of widespread democratic participation**

Not all of Hong Kong's political problems originate in the mainland—some are internal. Ironically, the fact that the people of Hong Kong have not had to wage a struggle to free themselves from British colonialism is one of them. Unlike other former colonies, post-1997 Hong Kong will lack a leadership that will have forged a consensus on governmental forms and economic priorities through its fight for liberation. Britain, moreover, has cultivated the cooperation of the territory's leading businesspeople, but has effectively shut out the large middle class from Hong Kong's political system. Currently there is no evidence that the Hong Kong government will make serious efforts to court the middle class and bolster confidence in its future after 1997. This failure might weaken the post-1997 Hong Kong political system.

Britain effectively shut Hong Kong's large middle class out of the political system.

Finally, Hong Kong's economy may be subject to some severe stresses during the 1990s that are the result of structural changes rather than the change in sovereignty. The manufacturing sector is likely to continue to decline in importance due to international competition and growing foreign protectionism, while the financial services sector will likely face increased competition from Japan. These factors, combined with the flight of a significant portion of the professional middle class, could seriously weaken Hong Kong's competitiveness in the coming decade—even if China remains basically stable and supportive.

Even odds

Despite the current upbeat news from China, both the optimistic and pessimistic scenarios remain possibilities, though the former now seems slightly more likely. The pessimistic scenario, should it be realized, envisions severe disruption setting in at some point during 1995-97. This disruption would likely produce widespread effects, such as accelerated emigration and significant capital flight. Even so, after a period of four to six years, China—with Guangdong taking the lead—would gradually assume a greater presence in the territory and bring Hong Kong's economy back up to full strength. The net result would be a very different Hong Kong, but one that would still play an integral role in the development of a rapidly growing region.

Hong Kong's long-term economic prognosis (i.e., to the year 2000 and beyond), therefore, is excellent. But the 1990s will introduce important changes that will profoundly affect the underlying fabric of Hong Kong society—and adapting to these may be tough, indeed.

Interview

The US and Foreign Commercial Service (FCS), established in 1981 to promote US exports, currently has 10 officers posted throughout China. Timothy P. Stratford, minister-counselor for commercial affairs at the US embassy in Beijing from 1988 until this summer, oversaw FCS' China operations during that period. Stratford recently spoke with Associate Editor Vanessa Lide Whitcomb about FCS goals in China and the concerns and successes of US companies doing business there.

Improving US Competitiveness

Q *What are the key issues FCS deals with in China?*

A A large percentage of our time is spent assisting US joint ventures and representative offices, but we also counsel US companies who come to China on visits. At the same time, we serve the FCS' 50-60 US offices, which encourage companies without previous foreign experience to export around the world, including China. FCS can provide Industry Sector Analyses (ISAs) and other information to help such companies identify prospective markets. This type of activity is an increasingly important part of our work in China.

FCS also has the lead role in identifying commercial opportunities for US companies already active in China. I've been looking at US competitiveness in various sectors and comparing our performance with those of other countries. If we look at sectors in which we're losing market share and ask why, we may find ways for US companies to be more aggressive in those areas (*see* chart).

Q *What complaints do you hear from US companies active in the China market?*

A One of the biggest general complaints is that foreign representative offices aren't allowed to set up sales and after-sales service operations in China—a tremendous impediment to increasing sales in the country. If American companies were allowed to engage in such activities, they could develop local sales and service forces. Sales would expand, and US firms would be more willing to invest as China's market develops.

The new OECD concessionary lending rules mean that China will have to look to other sources of project funding, probably including commercial rate loans.

The concerns of US investors in China stem more from the vicissitudes of the Chinese economy; in the South, there are power shortages and railway bottlenecks, while housing and management issues raise problems throughout the country. A lot of the forward-thinking ventures are looking at ways to construct their own housing in order to attract and retain good staff for their operations (*see* p. 26). US investors—and their Chinese partners, I'm sure—get a lot of gray hair trying to resolve these problems, but they are finding that business is growing rapidly.

Q *Does the Eighth Five-Year Plan (FYP, 1991-95) hold any promise for a boost in US exports to China?*

A The current FYP presents many opportunities for US companies. Agriculture is one of the areas emphasized under the State plan, and agricultural chemicals are a crucial US export. Last year, for example, China's increased fertilizer imports helped US exports to China recover from the previous year's dip. But US fertilizer exports could come under increased pressure because the 8th FYP also includes plans to build up China's chemical industry—particularly the agricultural chemical sector—and there are a number of fertilizer plants under negotiation. Though exports of US fertilizer could decline, we could see increased exports of the raw materials and chemical equipment used in fertilizer production.

Prospects are also good for the aircraft industry, which has been a real winner; US companies have supplied about 95 percent of China's total aircraft purchases over the past few years. We also have strong sales in heavy mining, offshore oil, and transportation equipment. In the transportation area, we previously sold locomotives, and now compete in a broader range of railway components, such as railway switching and light rail equipment. But it's a little soon to say whether US companies will win any of these contracts, as a lot depends on the financing available.

Q *Financing arrangements—particularly the soft loan programs of other countries—have been a sore point for US companies. How do you interpret the new OECD agreement that supposedly disallows concessionary financing for commercially viable projects in China and other countries (see* The CBR, *March-April 1992, p.4)?*

A In the past, the soft—or below-market rate—loans provided by some countries meant that US companies didn't have much of a chance in certain sectors. We're quite encouraged that the OECD agreement will likely limit the concessionary funding for important sectors such as power, telecommunications, and transportation, which should benefit US firms. US companies used to supply a significant portion of electric power generating equipment, for example, until soft loans became more prevalent in that area.

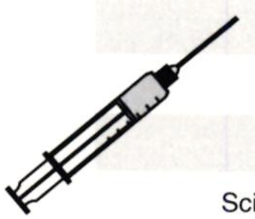
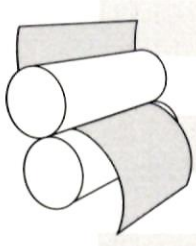
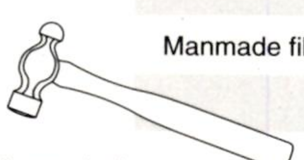
We've received inquiries from Chinese parties who would like to see a major US retailer set up shop in China.

The new limits and China's ambitious plans to carry out a large number of projects in this FYP will mean that China will have to look to other sources of funding, probably including commercial-rate loans. That starts to make the US government's Export-Import Bank (Eximbank)—which can provide loan guarantees and fixed rate medium- and long-term loans to support US exports—a viable source of financing for a lot of these projects.

Q *But in the end, isn't the OECD agreement merely a gentlemen's accord, making enforcement problematic?*

A It is. At a recent meeting of the commercial counselors in Beijing to discuss the agreement, a prevalent comment was "We don't trust such and such country and we have to reserve our options to make sure we don't lose out to countries that fail to abide by the agreement." For the

Leading US Exports to China, 1988-92
($ million)

	1988	1989	1990	1991	1992*
Aircraft and aircraft parts	335	536	749	1,083	387
Nuclear reactor equipment and parts	885	1,045	860	1,058	323
Fertilizer	201	487	544	982	247
Cereals	698	1,127	512	363	174
Cotton yarn and fabric	26	260	281	327	160
Scientific and surgical instruments	246	271	227	318	130
Plastics and resins	599	219	166	297	64
Electrical equipment	198	244	264	277	100
Organic chemicals	284	289	252	274	93
Wood and wood articles	448	181	180	168	34
Paper and paperboard	79	106	84	153	42
Manmade fibers, yarns, and woven fabrics	70	99	106	136	24
Iron and steel products	12	100	27	91	32
Vehicles and components	43	62	52	66	26

*January-April
All figures are on an F.A.S. basis
Source: *Department of Commerce*

United States, such options include resorting to Eximbank's "war chest," which has been used only once to protect US bidders in China. Will it be used again? Given the present political climate in the United States, it would probably be difficult to offer these funds for sales to China, but such decisions are certainly not made by us. *[Editor's note: Eximbank's war chest funds have been used in select cases since 1987 to support exports of US companies that risked losing tenders to foreign companies backed by tied-aid deals. Eximbank maintains that the primary function of the war chest is to provide US negotiators with strong leverage in the ongoing OECD discussions over concessionary financing.]*

In the meantime, the new agreement will give us a little more leverage because it enables us to give a principled reason why a soft loan should not be extended to a project. We can then try to develop a consensus within OECD to put real pressure on the one or two countries that are planning to offer concessionary financing. The Chinese have been very skilled at working various countries against each other to extract the most favorable financing terms. I think the new agreement will give us a few more tools to combat the pitting of one OECD country against another.

Because the United States is not considered a real potential provider of concessionary financing, in the past we were not brought into negotiations for projects to be funded with concessionary loans, so it was very difficult for us to get a feeling for what sorts of offers were being made with "winks and nods." We had to rely on information from American companies that came to us complaining about being cut out of a deal, but it was rather difficult for us to verify these claims. Now, some of the commercial counselors from other countries are letting us know what's going on. Many of them are beginning to believe their countries should not be in the soft loan business, despite pressures within their respective countries to offer such loans.

The reduced availability of soft loans—because of the new agreement and also because of budgetary constraints within the OECD countries—is promising for US companies, which have traditionally done well in areas where competition is great. If the Chinese can afford to build a plant using [the higher financing rates offered by] Eximbank or commercial banks, then we should have a good shot at those projects.

China's economic growth is impressive and US companies should do all they can to be involved in its positive aspects.

Q *There's been much talk about China's booming consumer market. How active are US companies in this sector, and what US products are likely to be in demand?*

A There is tremendous pent-up demand for quality consumer products in China. For example, at a recent American products consumer fair we organized in conjunction with the local Friendship Store in Guangzhou, sales were three times the projections of the Friendship Store—and we had originally thought their estimates were far too optimistic. About 17 US companies participated, including some who had invested in local joint ventures, and others who exported from the United States.

The US consumer products companies active in China have generally had to invest locally to get around import barriers. Many have done phenomenally well, and they've attracted a lot of positive attention to this sector because they've been good corporate citizens and have been among the highest taxpayers. There are a lot of successes so far, including companies like Coke, Pepsi, Procter & Gamble, Heinz, and now the fast food chains. McDonald's has very aggressive plans in China, as does Kentucky Fried Chicken. We've also received inquiries here at the embassy from Chinese parties who would like to see a major US retailer set up shop in China.

Q *What are your impressions of China's economy and what is your prognosis for further economic reforms?*

A Clearly, China's economy in the last few years has been rough on US business. The austerity campaign introduced in the fall of 1988 was certainly a trial, but US companies were willing to go ahead with investment because they were still convinced that China was moving in a direction that would lead to greater economic growth. The events of June 4, 1989, raised political questions, but they also raised doubts about the Chinese economy. The retrenchment policy no longer seemed a temporary phenomenon; some within the Chinese leadership advocated turning away from the market-oriented reforms that were taking place.

Toward the end of 1991, however, we started to hear reports that austerity was almost over, and in early 1992, we saw Deng's trip to the South as a symbol that the reforms were being carried forward. Now, when you talk to the Chinese you get the sense that the reforms are back on track, and perhaps with even more solid support than before, as if the leadership had concluded the alternatives were not viable. After all, retrenchment didn't work in the Soviet Union or Eastern Europe.

Q *Are we back to "business as usual" in China?*

A You can't say that. The circumstances are different; some things are back on track, but the political climate is still a problem. American companies must be concerned when China's Most Favored Nation (MFN) trading status is dependent on a presidential veto and the votes of a few senators. In the economic and commercial area, however, China is now doing many of the right things, such as reforming the economy. Economic growth is impressive and US companies should do all they can to be involved in the positive aspects.

Doing business in China may not be any easier than it was 10 years ago, but if a company is willing to spend the time and resources to develop its operations in China, it can come up with successful strategies. I'd advise companies to do their homework and be willing to devote the necessary resources, for even the mid-term profits will justify these efforts.

中外貿易 China Business

Qiu Wenjun

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, 1992

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

Advertising and Public Relations

Investments in China

Grey Advertising International (USA)/CITIC
Established the Grey China Advertising Ltd. joint venture to do market research, media, public relations, and promotion. 7/92.

Agricultural Technology

Investments in China

Chia Tai Group (Thailand)/NA
Established the Nanchang Chia Tai Livestock and Poultry Co. Ltd. to produce livestock and poultry feed. $7.2 million. 6/92.

Banking and Finance

Other

Sun Hung Kai Unit Trust Managers Ltd. (HK)
Will launch a new Chinese B share investment fund for Hong Kong and European institutional investors. $25 million. 6/92.

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.

Chemicals, Petrochemicals, and Related Equipment

Investments in China

Daicel Chemical Industrial and Mitsui & Co. (Japan)/HuiAn Chemical Works of China, NORINCO, and Shaanxi branch of the China National Tobacco Corp.
Established the Xian Huida Chemical Industrial joint venture to produce 8,000 tons of acetate cellulose tow annually. (Japan:30%-PRC:70%). $39 million. 5/92.

Roussel Uclaf Ltd. (France)/Tianjin Pesticides Factory and Dagu Chemical Factory
Established the Tianjin-Roussel Uclaf Pesticides Co. Ltd. joint venture to produce deltathrin as a raw material for making pesticides. (France:50%-PRC:50%). $7 million. 5/92.

Other

Japanese Government
Will provide a grant to supply pesticides and chemical fertilizers to seven counties in Yunnan and Jiangxi provinces. Y600 million (US$4.7 million). 6/92.

China's Investments Abroad

China National Technical Import-Export Corp./Pars Soda Ash Corp. (Iran)
Will build a soda ash plant near the Persian Gulf with an annual production capacity of 200,000 tons. 5/92.

Computers and Computer Software

Other

Digital Equipment Corp. (USA)
Established the Digital Equipment China/Hong Kong Group, its largest Asian operation, to oversee the company's China and Hong Kong operations. 6/92.

Construction Materials and Equipment

China's Imports

IHC Corp. (Netherlands)/CMC
Will sell three twin-screw dredgers. $100 million. 5/92.

Investments in China

Mitsubishi Materials Corp. (Japan)/Yantai City, Shandong Province
Will establish a cement joint venture in Yantai with annual production capacity of 900,000 tonnes. (Japan:70%-PRC:30%). ¥4 billion ($31.9 million). 7/92.

Onoda Cement Co. (Japan)/Dalian Huaneng
Completed construction of Asia's largest cement plant, a Sino-Japanese joint venture, with annual production capacity of 1.4 million tons of high-grade cement. 5/92.

Other

World Bank
Approved a 20-year loan for developing high-strength cement in China. $82.7 million. 5/92.

Consumer Goods

Investments in China

Sharp Corp. and Mitsubishi Corp. (Japan)/Shanghai No.1 TV Factory
Established the Shanghai Sharp Air Conditioning System Co. joint venture to manufacture and sell air conditioners. (Japan:60%-PRC:40%). $11.8 million. 6/92.

National Electronics Holdings of Hong Kong/Foshan Development Group of China
Established the National Electronics (China) Holdings joint venture to manufacture watches. (HK:60%-PRC:40%). $6.2 million. 6/92.

International Finance Corp.
Bought a 1.7% stake (3.5 million shares) in Shenzhen's China Bicycles (Holdings) Co. joint venture. 5/92.

Industrial Foundation of the Developing Countries (Denmark)/Beijing Baihua Printing House
Signed an agreement to establish the Beijing Baihua Color Printing Co. Ltd. joint venture to publish books for overseas Chinese scholars and specialists. (Denmark:25%-PRC:75%). $11.5 million. 5/92.

Other

Matsushita Electric Industrial (Japan)/China National Electronics I/E Corp. and Beijing Electronics Group Corp.
Will transfer technology for 29-inch color television sets. 6/92.

China's Investments Abroad

Xinjiang No.1 Radio Factory/Tashkent Electronics Co. (Uzbekistan)
Established a color-TV joint venture. (PRC:49%-Uzbekistan:51%). $6.3 million. 5/92.

Electronics

China's Imports

Olivetti Hong Kong/Shunde Municipal Agricultural Bank of China
Sold 150 PB banking workstations and 39 ATMs to the Shunde Municipal Agricultural Bank. $2.1 million. 6/92.

Investments in China

Mitsumi Electric Co. Ltd. (Japan)
The Qingdao Mitsumi Electric Co. Ltd., a Japanese wholly owned enterprise, started operations in Qingdao's ETDZ in Shandong Province. $14 million. 6/92.

Philips Electronics Southeast Asia Holding (Netherlands)/Shanghai No.7 Radio Factory
Opened the Philips Semiconductor Corp. of Shanghai integrated-circuit joint venture. (Netherlands:51%-PRC:49%). $72 million. 5/92.

Other

JVC (Japan)
Set up a representative office in Beijing. 4/92.

Sony Corp. (Japan)/Huayuan Industrial Co. Ltd.
Sony agreed to licence technology for the production of magnetic products and to buy $100 million worth of products back from Huayuan. 5/92.

Environmental Technology and Equipment

Other

ADB
Will provide a technical assistance grant to formulate a national strategy on global climate change. $600,000. 7/92.

Japanese Government
Will provide a grant to finance the establishment of the Japan-China Friendship Environmental Protection Centers. Y2.77 billion (US$21.8 million). 6/92.

UNDP
Will provide technical and institutional support to reduce coal-bed methane emissions by introducing technologies for recovering and using methane. $10 million. 6/92.

Food and Food Processing

Investments in China

Franx Supreme Canada Ltd. (Canada)/Zhuhai Xinkai Industrial Corp. Ltd.
Will establish the Franx Supreme Canada (Guangzhou) Ltd. joint venture to set up fast-food restaurants in China. $20 million. 6/92.

Foreign Assistance

Belgian Government
Provided a concessional loan for China to import Belgian products. $150 million. 7/92.

World Bank
Will provide IDA credits to support an infrastructure improvement project in Tianjin and a ship discharge control project. $115 million. 6/92.

Japanese Government
Will provide a grant for the construction of the Dunhuang Grottoes Cultural Asset Preservation Research and Exhibition Center in Gansu Province. Y870 million (US$6.7 million). 6/92.

Italian Government
Provided assistance to help protect and restore cultural relics in Xian. $4 million. 6/92.

Machinery and Machine Tools

Investments in China

Yuken Kogyo Co. (Japan)/Juci Hydraulics Plant
Established China's largest hydraulics joint venture with a potential annual output of 100 large hydraulic systems and 210,000 hydraulic valves. (Japan:40%-PRC:60%). $7.5 million. 5/92.

Packaging, Pulp, and Paper

Investments in China

Daitoh Corp. (Japan)/Beijing Tourist Commodities Corp.
Established a packaging joint venture to produce wrapping paper. (Japan:50%-PRC:50%). $500,000. 7/92.

Petroleum, Natural Gas, and Related Equipment

Investments in China

Royal Dutch Shell (Netherlands)/NA
Plans to establish in Guangdong Province an oil refinery joint venture with annual capacity of 5 million tons of crude oil. $3 billion. 6/92.

Amoco Oriental Oil Co. (USA)/China Oil Development Co.
Signed a 30-year cooperative oil development contract. 6/92.

NA (Japan)/NA
A Japanese-funded seismic survey team of over 200 Japanese and Chinese technicians began exploration of oil and gas resources in the Tarim Basin. $60 million. 6/92.

UNDP
Will provide grants to help improve oil drilling efforts in the Tarim Basin. $5.8 million. 6/92.

Power Plants

China's Imports

Sulzer Escher Wyss Hydro (Canada) and ACEC Energie (Belgium)
Will sell hydropower generators, financed by a Canadian government credit and a General Bank of Belgium commercial loan, to the 57,000-kw Gaotan Hydropower plant in Hunan Province. $23.3 million. 7/92.

Bonus Co. (Denmark)/China National Technology Import-Export Corp.
Will sell four wind-driven generators, financed by a Danish government loan, for the second phase of construction of a wind power station in Xinjiang. DKr10.4 million (US$1.6 million). 6/92.

Elin & Voith Co. (Austria)/China National Technology Import-Export Corp.
Will sell electric power equipment for a power plant to be built in Tibet. $37 million. 5/92.

Investments in China

GEC Alsthom NV (France)/Hopewell Energy International Ltd. (Hong Kong) and Guangdong General Power Co.
Will build the Shajiao C Power Plant 60 km from Guangzhou. $960 million. 4/92.

Other

World Bank
Approved a loan to help China build two 600-mw coal-fired power plants at the Zouxian thermal station in Shandong Province. $310 million. 5/92.

Property Management and Development

Investments in China

Hong Kong Convenience Stores of Dairy Farm Asian and Max Bail Investments (HK)/Shenzhen Luohu Economic Development Corp.
Established the Shenzhen Convenience Stores Co. Ltd. joint venture to open 7-Eleven stores in Shenzhen. HK$30 million (US$3.9 million). 6/92.

Other

J & R Development Ltd. (HK)/Hangzhou municipality
Signed a 50-year land-use contract for two sq km in Hangzhou. $111.5 million. 5/92.

Telecommunications

China's Imports

AT&T of Shanghai/MPT and National Postal and Telecommunications Appliances Corp.
Will sell telecommunications equipment for a 1,484-km fiber-optics network linking Beijing, Tianjin, Jinan, and Nanjing. $7.9 million. 7/92.

Bell Telephone Manufacturing Co. (Belgium)/Liaoning Province
Will sell program-controlled switchboards with a capacity of 150,000 lines. $23 million. 7/92.

Sprint International (USA)/The Ministry of Railways
Will sell railway telecommunications equipment to China. $8.37 million. 7/92.

Canadian North Telecommunications Co. (Canada)/Liaoning Province
Will sell microwave telecommunications equipment. $2.49 million. 7/92.

Olex Cables of Pacific Dunlop (Australia)/NA
Will supply fiber-optics cable for a telecommunications project linking Chengdu, Xian, and Zhengzhou. $22.72 million. 6/92.

Investments in China

AT&T (USA)/Shanghai Communication Equipment Factory
Established the Zhongmei T&T Equipment Co. Ltd joint venture to manufacture SLC-120 and SLC-240 digital-loop carrier systems for the China market. $7 million. 6/92.

Matsushita Electrical Industrial Co. and Matsushita Communications Industrial Co. (Japan)/China Postal and Telecommunications Industrial Corp., Beijing Branch of the China Postal and Telecommunications Equipment Corp., and the Beijing Communication Components Plant of MPT
Established the Beijing Matsushita Communications Equipment Ltd. digital pager joint venture. (Japan:50%-PRC:50%). $5 million. 5/92.

Nokia (Finland)/Guilin Institute of Optical Communications
Will establish a joint venture to produce telecommunications products. $5 million. 5/92.

Other

ADB/MPT
Approved a technical assistance grant to formulate fiber-optics cable systems for Beijing-Wuhan-Guangzhou and Beijing-Taiyuan-Xian. $215,000. 7/92.

AT&T Submarine System of AT&T (USA)/Directorate General of Telecommunications, Kokusai Denshi Denwa (Japan)
Will design, engineer, and install an undersea optic-cable system which will link Miyazaki, Japan and Nanhui, Shanghai. $70.3 million. 5/92.

Japanese Government/Beijing Firefighting Center
Will provide a grant for the Beijing Firefighting Center to purchase communications equipment for fire control in the city. Y1.2 billion (US$9.4 million). 6/92.

Textiles

China's Investments Abroad

CITIC/Consortium of textile concerns (Indonesia)
Will establish a rayon fiber plant with annual output of 200,000 tonnes in southern Sulawesi. (PRC:49%-Indonesia:51%). 6/92.