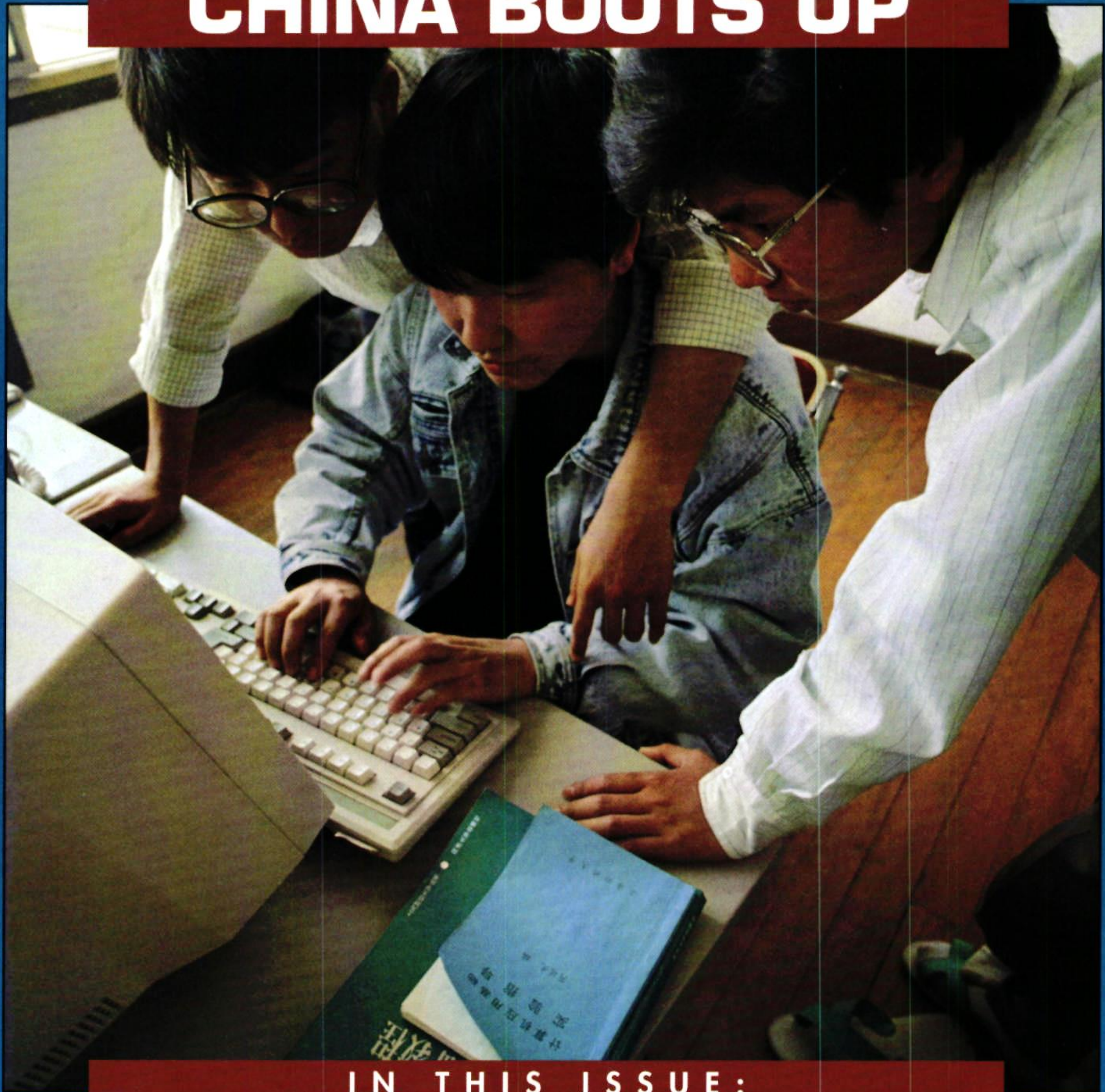
THE CHINA BUSINESS REVIEW

SEPTEMBER-OCTOBER 1993

VOLUME 20, NUMBER 5

CHINA BOOTS UP



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After a gruelling business journey that had taken me through five countries in two weeks, I finally succumbed to fatigue. Yet one final assignment in Beijing remained. Fortunately, my retreat into The Palace refreshed my body and soothed my soul. Its traditional charm and modern sophistication led me toward exquisite serenity like a path paved with silk.

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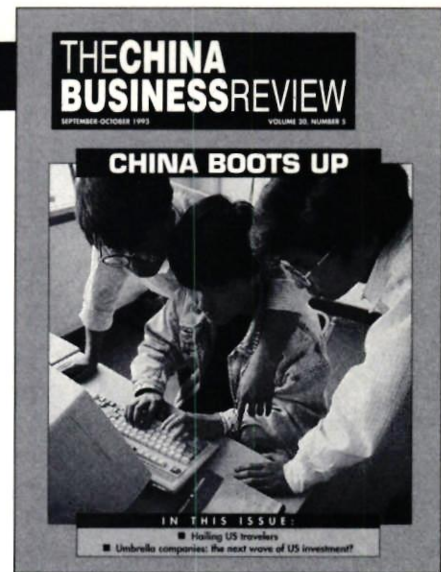

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On the Cover *University students in Shanghai hone their computer skills. Photo by Daniel Grogan Photography*

Zhu Takes Aim at Overheated Economy

After local officials for months disregarded central directives to slow the overheated economy, Beijing finally decided to get tough in July. Spearheading the drive to reduce credit and inflation, Vice Premier Zhu Rongji unveiled a 16-point program designed to strengthen the central government's "macrocontrol" of the economy. Central leaders were quick to clarify that macrocontrol does not imply a return to central planning or a rollback of reforms; according to Zhu, "There is no need to have a full-scale retrenchment policy" and only certain sectors of the economy are to be slowed.

A main goal of Zhu's plan is to curb the banking system, whose loose credit policy is seen as fuelling spending at the local level. In one sign of the central authorities' resolve, People's Bank of China Governor Li Guixian was sacked July 2 and replaced by Zhu Rongji. As acting governor, Zhu immediately convened a national banking conference and launched a shakeup of the banking system to restore "financial discipline." Zhu outlined provisions to recall high-risk, speculative loans and tighten bank lending practices. Interest rates were raised for the second time in three months.

Taking aim at another inflation feeder, Vice Premier Zou Jiahua introduced a 10-point plan designed to brake the real estate sector and crack down on speculation. According to the plan, construction of villas, luxury hotels, and new golf courses is to cease. Buyers of land-use rights will have to inject at least 20 percent of promised investment before reselling, and land sold at artificially low prices must be returned.

Cleaning shop

The central government, too, is expected to put its house in order. Zhu's plan calls for a 20 percent reduction in government spending and a ban on imports of automobiles by government units. Stepped-up tax scrutiny is to raise government revenues and stem Beijing's growing deficit. A drive against corruption in the government, military, and police and a clampdown on speculation in share trading on China's stock markets are also part of the plan.

Most Western analysts agree that the announced measures are necessary if China's economy is to avoid more serious disruptions. But the success of the plan rests on the ability of the central government to implement its directives. In the past year, calls to slow the careening economy have been ignored, as each locality denied its own economy was overheated and pointed the finger at other provinces. This time, "investigation" teams have been dispatched to 20 provinces to ensure that local officials comply with Zhu's program. The central government is also likely to fire some local officials—particularly in the banking sector—to get its point across. This threat may be Beijing's most effective stick.

Impact on foreign business

The 16-point program is likely to have little direct effect on US businesses because few are active in the targeted sectors. Indirectly, however, an economic slowdown could affect all sales. Past retrenchments, while intending to preserve priority sectors of the economy, usually slowed economic growth across the board. Project delays are also likely as *renminbi* (RMB) funding tightens. Banks are being told to adhere strictly to approved lending levels, so some foreign-invested enterprises (FIEs) may find RMB loans difficult to obtain. A general credit tightening could also lead to higher accounts receivable for FIEs if customers find themselves in a cash crunch.

On the positive side, FIEs may find an improved situation at the swap markets if RMB credit is tightened. Production costs may also ease with time, if construction is slowed and demand-driven materials prices settle down, benefiting both FIEs and companies that source from China.

—*John Frisbie*

Treacherous Seas

A cargo ship overladen with illegal Chinese emigrants runs aground in New York. Other smugglers looking to unload their human cargo on the West Coast are diverted to Mexico and dealt with harshly by immigration officials. Meanwhile, foreign ships in the South China Sea are pursued by gunboats manned by Chinese-uniformed forces.

While such actions may be fine for adventure movies, they pose alarming dangers to international shipping—and human lives. US officials have pressed Beijing to help stem the tide of illegal Chinese emigrants, many of whom pay $30,000 or more for transit on unseaworthy ships, only to find themselves captives in the United States until they or their families pay the smugglers additional ransom. For most of them, asylum will be hard to obtain, especially if the US government implements a new, tougher policy to combat all illegal immigration.

Sea-going smuggling of the non-human variety also seems to be on the upswing, with equally nasty results. In July, a North Korean freighter was attacked off the South China coast by what appeared to be a Chinese security vessel. The freighter was fired upon and boarded, but the raiders fled when a helicopter search team from Hong Kong flew overhead. Other ships have reported similar attacks in recent months.

It is not clear who the pirates are, though some of them have reportedly been wearing Chinese uniforms. In early summer, Beijing apologized to Moscow for boarding two Russian vessels, claiming that the mishap was a result of a Chinese anti-smuggling campaign. Whether the pirates are independent buccaneers or local customs officials on the prowl, ships carrying new or used cars are a favorite prey, since these commodities are in high demand on the mainland.

—*VLW*

SHORT TAKES

Asia Forecast: Growth Today, Growth Tomorrow

A recent report by DRI/McGraw-Hill projects Asia's economic growth will eclipse that of Latin America and the industrialized countries throughout the 1990s. Annual GDP growth for the Asian region as a whole during the 1993-98 period is expected to average 7.3 percent, with China growing at an even higher annual rate of 8.2 percent. The US economy, in contrast, is forecast to grow 2.6 percent each year from 1993-98.

In a separate report by the Asian Development Bank, Hong Kong's economy is projected to grow by 6.1 percent in 1993 and 5.3 percent in 1994. Inflation, however, may continue to rise, especially if the mainland economy keeps growing at a furious pace.

Tough on Teachers

Beijing's efforts to improve education levels throughout China may be in trouble if teachers don't get a boost in salary. According to provincial education authorities in Hunan, over 6,000 teachers in the province resigned between 1990-92. Low pay is the most likely reason, as a full-time middle-school teacher in some areas of the country receives less than ¥400 ($69) per month, well below the salaries earned in other professions.

No Match for Local Brands

Despite government efforts to discourage tobacco growing, China's farmers produced a record 3.42 million tons of tobacco last year. China's many smokers, meanwhile, lit up 1.7 trillion cigarettes, giving the country the dubious honor of being the world's largest producer and consumer of tobacco products.

According to a recent report in *The Asian Wall Street Journal Weekly*, local brands are the smoke of choice; costlier imports accounted for less than 1 percent of China's total cigarette sales in 1992. A ban on cigarette advertisements on television and in most print media has prompted some foreign tobacco companies to sponsor sporting and other events to heighten consumer awareness of their products.

For Pandas or Profits?

Hsing-Hsing, the National Zoo's lonely giant panda, may be doomed to bachelorhood. His mate Ling-Ling died last winter without having produced a surviving cub, ending two decades of panda pregnancy alerts and, perhaps, the hope for a successful panda-breeding program in the United States. Amidst worldwide controversy over the best way to ensure the dwindling species' survival, conservationists and the US government assailed a San Diego Zoo proposal to borrow a breeding pair from China.

The zoo defends its plan by arguing that the presence of the pandas in the United States will heighten public awareness of the animals' need for protection. In addition, the zoo will pay Beijing $1 million during each of the three years of the proposed loan, with the funds earmarked for panda preservation programs in China.

But a number of wildlife conservation groups have sharply criticized the loan as commercially motivated, claiming that the best chance for stabilizing the panda population lies with the existing breeding and study program in China. Secretary of the Interior Bruce Babbitt warned the San Diego Zoo in June that the US Fish and Wildlife Service is unlikely to approve the zoo's request for an import permit for the pandas. Though the animals were due to arrive this summer, Fish and Wildlife officials have yet to decide on the permit application, leaving the San Diego panda enclosure empty. —*VLW*

THE CHINA BUSINESS REVIEW

The magazine of the US-China Business Council

EDITOR
Pamela Baldinger

ASSOCIATE EDITOR
Vanessa Lide Whitcomb

ASSISTANT EDITOR
Ann Amelia Flynn

CIRCULATION MANAGER
Windy Zou

PRODUCTION MANAGER
Jon Howard

1818 N St., NW Suite 500
Washington, DC 20036-5559
Tel: 202/429-0340
Fax: 202/775-2476
Telex: 64517 NCUSCTUW

PRINTED IN THE USA

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The China Business Review, ISSN No. 0163-7169, is published bimonthly by the China Business Forum, 1818 N St., NW, Washington, DC, 20036-5559, USA (Tel: 202/429-0340), a nonprofit organization incorporated under the laws of Delaware. Second class postage paid at Washington, DC, and additional mailing offices. Postmaster, please send address changes to *The China Business Review*, 1818 N Street, NW, Suite 500, Washington, DC 20036-5559, USA.

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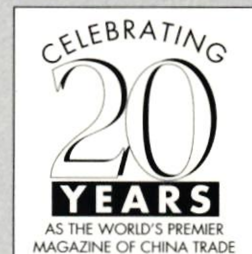
Annual subscription rates: $96 US/Canada; $150 international. Single copy issues: $16 (airmail $25); issues over 1 yr: $8 (airmail $12.50).



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Reshaping America's China Policy

The Council will ensure that the current US inter-agency review of China policy takes the business community's views into account

Summer is traditionally a slow time for both business and politics. But here at the Council, we've been busy formulating new initiatives that could have a direct impact on US companies doing business in China. These initiatives focus on both Beijing and Washington, and seek to advance policies that will improve the competitiveness of US companies in China. In Washington, the current Clinton Administration review of China policy affords an opportunity for the Council to weigh in on a wide range of issues largely overlooked in the past few years due to government and industry preoccupation with the debate over China's Most Favored Nation (MFN) status. In Beijing, the State Council is taking measures to curb inflation and slow the economy. To stay apprised of Beijing's thinking and to share with the leadership the concerns of the US business community, the Council's board of directors is planning a late-November visit to Beijing and Shanghai.

The Council has identified six general areas (in addition to our regular services) on which to focus through the end of this year:

■ Promote export control liberalization for China

The Clinton Administration is in the midst of an inter-agency review of US export control policy. The Council has therefore re-established its Export Control Working Group to discuss the review and present the thoughts of the business community to relevant Administration and congressional officials (*see* p.26). The Council has prepared a position paper outlining specific measures that should be implemented to improve the access of US companies to the growing Chinese market for high technology while, at the same time, protecting US national security and non-proliferation interests. Among the suggestions are the moving forward of the China green zone and the curtailing of excessive conditions imposed upon licenses for China sales. Most important, the Council will try to guarantee that China is not excluded from any general liberalization of export control policy, and that any imposition of export control sanctions is multilaterally applied.

■ Re-institute export finance for China

The Council is also urging the White House to remove the export finance sanctions that were imposed on China in the wake of Tiananmen. From 1982-90, the Trade and Development Agency (TDA, then known as TDP) funded 98 feasibility studies in China, while the Overseas Private Investment Corp. (OPIC) was one of the few providers of long-term political risk insurance to US investors in the PRC. The suspension of the China programs of these agencies has hurt US competitiveness in China, but has had no impact on the Chinese govern-

ment. Since boosting US market share abroad is a stated goal of the Clinton Administration, it no longer makes sense to continue these sanctions.

■ Update companies on MFN-related issues

President Clinton's May 28 renewal of China's MFN status for 1993 placed specific human rights conditions on the extension of the trade status next year (*see The CBR*, July-August 1993, p.6). The

> The Council's membership has grown by one-third over the past year.

Council will monitor Chinese actions—and US government reactions—closely to keep member companies informed of prospects for MFN renewal in 1994. In addition, we will be tracking the 80-odd China-related bills, resolutions, and amendments that have already been introduced in Congress in the first seven months of this year, since almost every one could have an adverse impact on US-China relations.

■ Report on possible missile proliferation sanctions

Mounting allegations of Chinese sales of M-11 missiles or missile components to Pakistan are raising troubling questions about whether China is living up to its commitment to observe the guidelines of the Missile Technology Control Regime (MTCR). Thus far, the Administration has not made a final determination on the issue, but Secretary of State Warren Christopher and Undersecretary for International Security Affairs Lynn Davis have warned their Chinese counterparts of the penalties mandated by US law if the MTCR guidelines are violated. Should such a determination be made, automatic sanctions would be invoked under the Arms Export Control Act (AECA) and the Export Administration Act.

It is not clear how punitive US sanctions would be, as they would be based on the severity of the violation and the Administration's interpretation of the Helms amendment to the AECA. A limited interpretation of the amendment would entail a ban on the export of all munitions control list items destined for Chinese organizations involved in the development or production of military electronics and aircraft, missiles, and space systems. A broad interpretation, however, could encompass civilian electronics as well. Clearly, any sanctions would hurt US-China trade, strain the bilateral relationship, and disrupt efforts to liberalize export controls for China. The Council will be in close contact with US government authorities to ascertain the likelihood of the imposition of sanctions.

■ Survey companies on China's business environment

The Council will survey members on critical issues affecting the profitability of their China operations. Three surveys will be conducted over the next few months, covering the topics of foreign exchange balancing, joint-venture labor and personnel issues, and general investment problems. The results of each survey will be published in *The CBR* so that Council members may compare their own experiences with those of their counterparts, and perhaps explore common solutions.

■ Improve member outreach

For member company representatives who find it difficult to come to Washington for our all-membership meetings each January and June, the Council is planning a series of briefings around the country this autumn. In September, the Council will host a meeting in Chicago, followed by a luncheon discussion with Li Daoyu, China's ambassador to the United States. In October, we will visit Seattle, San Francisco, and Los Angeles to update our West Coast members on developments in Beijing and Washington. I hope all of our members in these locations will be able to join us for these meetings.

Clearly, the coming months will be a busy time for the Council, as commercial and political interest in China continues to grow. The extent of US business interest is reflected in our membership, which has grown by one-third over the past year. We appreciate the support of these new friends, and I am confident that our work on these initiatives will contribute to the efforts of both old and new members to compete in the growing China market.

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Umbrella Enterprises

■ **John Frisbie and Helena Kolenda**

Are investors covered?

China's astounding economic growth rates over the past 18 months have lured more and more foreign companies to set up operations there. Numerous foreign manufacturers, however, find themselves hamstrung by government rules and regulations that restrict their business activities to three main forms: representative offices that technically are prohibited from signing contracts and engaging in direct business activities; direct investment projects that can manufacture and market specific, pre-approved product lines; and licensing or other contractual relationships with domestic manufacturers that limit the foreign company's control over the operation.

Many companies are now seeking greater flexibility to operate in China's markets. A growing number are interested in establishing fully integrated companies that can combine sales, procurement, subsidiary investment, manufacturing, and maintenance service for a broad range of product lines. Foreign companies interested in the concept include those new to China as well as established firms seeking to unite existing investments in China under a parent company.

While current Chinese law does not provide for this type of integrated company, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) has granted 20-25 foreign companies permission to establish entities that are starting to fill this role. As the number of inquiries on establishing fully integrated companies is growing, the Chinese have begun to develop a policy to guide their creation.

The "umbrella" enterprise

The term generally used in China to describe these integrated entities is "umbrella enterprise" (*sanxing qiye*). The terms "investment company" (*touzi gongsi*), "group company" (*jituan gongsi*), or "holding company" (*konggu gongsi*) are also sometimes used. This last term is somewhat misleading, however, since in most cases foreign companies are interested in establishing more than a non-operating company that would simply hold equity in several subsidiary projects.

Typically, a foreign company might consider establishing an umbrella enterprise to achieve some or all of the following objectives:

- Investment in subsidiary projects
- Manufacture of products
- Facilitation of foreign exchange balancing for all China activities
- Centralized purchase of production materials for subsidiary projects
- Provision of product maintenance service and technical support
- Training for subsidiary project personnel and for endusers of goods produced by the umbrella enterprise or subsidiary projects

■ **John Frisbie is director of China operations at the US-China Business Council. Helena Kolenda is a resident Beijing attorney for the international law firm of Paul, Weiss, Rifkind, Wharton & Garrison.**

- Direct import of finished products for sale in China
- Coordination and consolidation of project management (Currently, each foreign investment enterprise [FIE] has a separate company structure; an umbrella enterprise theoretically could centralize management and streamline the subsidiaries as operating units.)
- Marketing of subsidiary products (Currently, each manufacturing FIE in China has to set up its own sales capability; an umbrella enterprise could achieve greater efficiencies by establishing one marketing entity)
- Conversion of representative offices into umbrella or subsidiary branch offices (thus removing many operating restrictions, such as the need to hire personnel through labor service companies)

With the exception of the direct import of finished products, all of these objectives potentially are achievable through the formation of an umbrella enterprise. However, even though an umbrella enterprise, unlike other FIEs, is able to invest its registered capital—not just profits—in subsidiary projects, it remains unclear to what extent an umbrella enterprise will enhance a foreign investor's ability to meet some of the above-mentioned objectives.

MOFTEC guidelines

MOFTEC maintains that it is the approval authority for all umbrella enterprises, which are subject to the guidelines and requirements of an internal ministry document. The document is not detailed, however, and the ministry apparently has no plans to issue public regulations on umbrella enterprises in the near future. Instead, MOFTEC seems to be allowing some experimentation and flexibility in the formation and operation of these companies, especially if the foreign investor is a well-known multinational corporation with products or technology the ministry finds attractive. The content of future regulations undoubtedly will depend at least in part on what MOFTEC and other government policymakers eventually consider "successful" models of umbrella enterprises.

According to MOFTEC officials, a foreign company must meet a number of requirements to establish an umbrella enterprise. Such an enterprise can be either a joint venture or wholly foreign-owned enterprise (WFOE). Generally speaking, it must have a minimum of $10 million in registered capital, of which 25 percent must be in foreign exchange. This capital is to be invested in the umbrella enterprise's own operations and/or in its subsidiaries. Contributions to the umbrella enterprise's registered capital can be

An umbrella enterprise and its various subsidiaries are treated by Chinese tax authorities as separate entities; consolidation of revenue and expenditures for tax purposes is not allowed.

made in installments in accordance with the respective provisions governing joint ventures and WFOEs.

At present, the allowed scope of operations for an umbrella enterprise includes manufacturing, investment in subsidiaries, purchase of inputs and raw materials for subsidiaries, sale of subsidiary output, and provision of product maintenance service. An umbrella enterprise cannot act as a general trading company; that is, it cannot import finished product lines and sell them in China. Its business license must state the industries, projects, or products in which it will invest—it cannot have an open license to engage in whatever business it wants. If the umbrella enterprise later wishes to engage in an activity not listed in the license, the change would have to be approved by MOFTEC and the license amended accordingly.

The foreign investor wishing to establish an umbrella enterprise usually must have two or more established FIEs in China—or substantial proposals for the establishment of at least two FIEs—that would become subsidiaries of the umbrella enterprise. Internationally known firms are given preference when applying to establish umbrella enterprises, although lesser-known companies with a number of successful projects in China are also likely to receive favorable consideration.

Investors may have difficulty obtaining an umbrella enterprise contract approved for an unlimited duration, even though the WFOE law and a 1990 amendment to China's equity joint-venture law allow FIEs, in principle, to have perpetual terms. Instead, MOFTEC officials say they generally will allow an umbrella enterprise to have a term "the same as or slightly longer than" that of an ordinary FIE, which is often limited to a renewable 50-year term. One MOFTEC contact has indicated the ministry may be more receptive to granting an unlimited term if the umbrella enterprise itself engages in manufacturing.

Like all FIEs, an umbrella enterprise has Chinese legal person status. This raises the question of whether a subsidiary can enjoy FIE treatment if it is being invested in by a Chinese legal person (the umbrella enterprise), rather than by an offshore foreign company. MOFTEC sources state that as long as the subsidiary can trace at least 25 percent of its registered capital to a foreign company *and* 25 percent of its registered capital is in foreign exchange, the subsidiary is eligible for FIE treatment.

In other words, if a foreign company holds 50 percent of the equity of a joint-venture umbrella enterprise that provides 50 percent of the equity in a subsidiary joint venture, 25 percent of the subsidiary's registered capital can be traced to the foreign company. Provided 25 percent of the registered capital is in foreign exchange, the subsidiary will be allowed FIE treatment. FIE status will be specified in the subsidiary's approval document and business license. By comparison, subsidiaries of ordinary FIEs do not receive FIE status unless foreign investment from other sources is obtained. Such subsidiaries would therefore be ineligible for the special tax breaks and other incentives FIEs enjoy.

An umbrella enterprise and its various subsidiaries are treated by Chinese tax authorities as separate entities; consolidation of revenue and expenditures for tax purposes is not allowed. Subsidiary prof-

its that are remitted to the umbrella enterprise as dividends will not be double-taxed, however. On the other hand, an umbrella enterprise with no manufacturing of its own will be taxed at 33 percent with no tax holidays—articles 7 and 8 of the 1991 FIE Income Tax Law restrict tax benefits to manufacturing ventures. Like all other FIEs, an umbrella enterprise must balance its foreign exchange.

In the absence of specific legislation on umbrella enterprises, MOFTEC officials say an umbrella enterprise generally will be governed by the respective WFOE or joint-venture law. This lack of legislation allows foreign companies some leeway in forming an umbrella enterprise, and the variety of umbrella enterprises already approved suggests that the stated requirements are somewhat negotiable. Moreover, in order to attract foreign investment, the State Council recently encouraged MOFTEC to approve umbrella enterprise applications submitted by multinational corporations that have neither established FIEs in China nor provided substantial proposals to invest in FIE projects. The rationale appears to be that a company would not invest $10 million in China if it had no plans to utilize such funds.

Getting started

To establish an umbrella enterprise, a foreign company must apply to the approval authority with jurisdiction over the area where the enterprise will be located—usually the local commission of foreign trade and economic cooperation. Following approval by the local commission, the application is forwarded to MOFTEC for final approval. This formal approval process may take as little as two or three months. It should be noted that nowhere in the approval document or business license is a company classified as an "umbrella enterprise." Instead, it is distinguished from an ordinary FIE in the approved scope of operations description, which states the enterprise may invest its registered capital in subsidiary projects.

At MOFTEC, the Foreign Investment Administration (FIA) and the Treaty and Law Department are jointly in charge of the approval of umbrella enterprises. The Comprehensive Department of the FIA has approved many of the existing umbrella enterprises, but other FIA departments in charge of specific industries can also approve umbrella enterprises within their jurisdictions.

> Thus far, no umbrella enterprise is permitted to act as a general trading company or directly import finished products for sale in China.

Approval to convert an existing FIE into an umbrella enterprise subsidiary or to establish a new subsidiary is granted according to normal FIE approval procedures. A subsidiary project with a total capitalization within local approval limits ($30 million for most coastal provinces) will be approved by the local commission of foreign trade and economic cooperation. Projects capitalized at levels above these amounts require MOFTEC approval.

The approval document for a subsidiary will stipulate that it satisfies the requirements to receive FIE treatment. The State Administration of Industry and Commerce or its local counterpart will then issue a standard joint-venture or WFOE business license. Because subsidiary approvals can be granted at the local level, MOFTEC has recently instituted a requirement that each umbrella enterprise must submit an annual report describing to MOFTEC all projects in which the enterprise has invested.

The umbrella record

According to MOFTEC sources, equity joint-venture umbrella enterprises approved to date include those in Beijing between Beatrice Co. and the China International Trust and Investment Corp. (CITIC) (Beatrice's share is now owned by The Coca Cola Co.); between a Singapore company and CITIC; and several between Hong Kong companies and their Chinese partners. Chia Tai Group, a Thai agricultural and industrial conglomerate, has formed an equity joint-venture umbrella company with a Chinese partner in Shanghai. A Brazilian company and its Chinese partner cemented a similar deal in Henan. WFOE umbrella enterprises include IBM Corp. in Beijing and E. I. du Pont de Nemours and Co. in Shenzhen.

The experiences and business scopes of these umbrella enterprises vary. Some are only holding companies, while many do their own manufacturing in addition to holding equity in manufacturing subsidiaries. All are allowed to sell products they manufacture themselves but, based on conversations with the foreign investors, apparently not all are permitted to sell subsidiary products. None of the umbrella enterprises can act as a general trading company or directly import finished products for sale in China.

At least one umbrella enterprise has won approval to provide maintenance service for payment in *renminbi* (RMB). The company is permitted to import spare parts and components for goods produced by itself and its subsidiaries, as well as for finished products sold in China by the foreign investor's overseas opera-

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tions—something ordinary FIEs generally are not able to do.

Several foreign investors have converted representative offices into their umbrella enterprise or its branches, a step which allows them to hire and pay employees directly instead of relying on Chinese labor service companies such as the Foreign Enterprise Service Corp. (FESCO). One company envisions its umbrella enterprise pooling RMB profits from subsidiaries to reinvest in other projects in China. RMB pooling may also help companies accumulate funds to construct the enterprise's own office facilities or corporate headquarters, purchase or build housing for employees, or even source products for export to help balance foreign exchange.

Most enterprises are exploring other ways to facilitate their foreign-exchange balancing activities as well. Some believe that an umbrella enterprise may make the balancing of foreign exchange easier by enhancing the foreign company's ability to shift currency among different projects. According to MOFTEC, one umbrella enterprise is being permitted to purchase certain Chinese electronic products in RMB for sale outside of China. Another reported it has received approval to balance credits for hard currency procurement against RMB sales in China. Previously, the foreign company's large procurement expenditures were not allowed to be tied to its joint venture's foreign-exchange balancing activities.

Opportunities for management consolidation are greater for an umbrella enterprise than for ordinary FIEs.

A panacea?

In some cases, objectives such as obtaining an unrestricted business license and permission to act as a trading company are not yet obtainable through the creation of an umbrella enterprise. Opportunities for management consolidation are greater for an umbrella enterprise than for ordinary FIEs, but may be limited if the subsidiaries are joint ventures involving different Chinese partners.

Foreign-exchange balancing is already allowed among FIEs of the same parent company, subject to approval of the local bureaus of exchange control. Umbrella enterprises require the same approval, and thus do not seem to provide greater ease in currency transfer among subsidiaries in different localities. If avoiding FESCO is a main objective for establishing an umbrella enterprise, it may be more cost effective to convert the representative office into a branch of a regular FIE.

Foreign investors in umbrella enterprises seem to be aware of these limitations, but most say they have put up their umbrellas not just to take advantage of benefits currently offered, but also to be well-placed to expand activities when China further relaxes its restrictions on company operations. In the meantime, their companies will continue to test the boundaries of allowable activity and negotiate with Chinese authorities to obtain greater operating flexibility. 完

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China Computes

■ Saiman Hui and Hilary B. McKown

For computer vendors, the East is green

■ Saiman Hui is managing director of International Data Corp. (IDC) China/Hong Kong Ltd. and directs market research activities in IDC's Beijing, Shanghai, and Shenzhen divisions. Hilary B. McKown is editor of *China Informatics,* a semi-monthly newsletter that covers China's computer, telecommunications, and electronics markets.

Economic recession in the West and increased global computer standardization have eroded the profit margins of many computer manufacturers in recent years. As computers—especially personal computers (PCs)—become more commonplace in homes and businesses in traditional markets, leading vendors are turning to other, less mature markets for profits. China, with its rocketing economy and ambitious modernization plans, is attracting much of their attention. Last year, China imported just over $1 billion worth of computer equipment, a 12.9 percent increase over 1991 (*see* table).

China's economic development plans bode well for future computer sales figures. The government hopes to employ computers to modernize China's outdated industrial infrastructure as well as boost the development of the nascent commercial sector, including the consumer and financial markets. Computers are now being used in nearly every sector of the Chinese economy.

Accorded priority status by Beijing, China's high-technology electronics industry, which includes computers, is to receive increased investment and preferential treatment from the government through the end of the century. In 1992, total output value of China's computer industry reached ¥10.9 billion. This figure is expected to jump 25 percent to reach ¥13.5 billion this year. While the amount of money China will invest throughout the next few years has not been specified, based on the amounts of the past two-three years, investment will probably continue to grow at an annual rate of 20 percent. The Ministry of Electronics Industry (MEI), which oversees development of the computer sector, predicts China's total computer market will stand at ¥87 billion by 1995. Reliance on imports, especially for higher-end systems, will remain strong throughout this period and beyond.

Firing up the industry

China's drive to develop its computer industry began in the early 1980s as part of the nation's overall modernization efforts. Before then, modern computer technology was essentially non-existent. Until 1979, China relied on imports from the Eastern bloc as well as on domestically produced data processors, which used very low-end and outdated vacuum-tube technology. One system easily took up an entire room and the data processing power was extremely slow by Western standards.

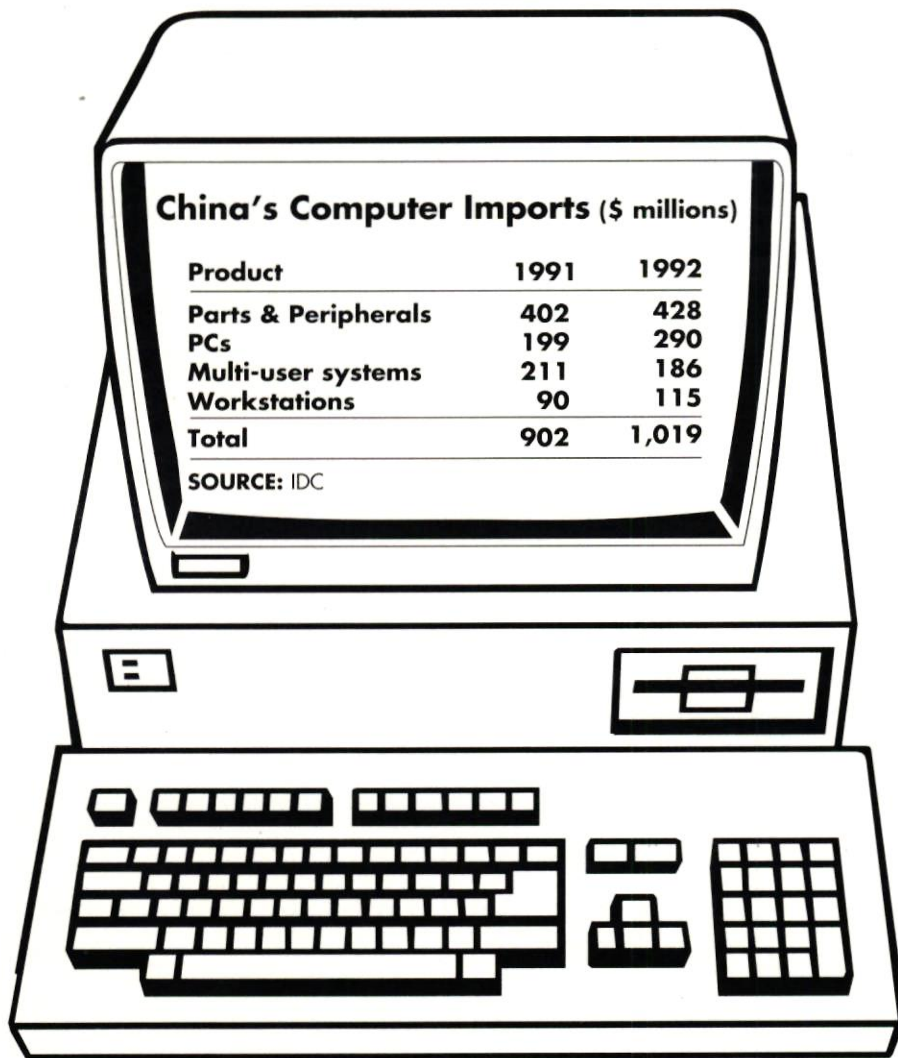
During the early years of China's reform period (1981-85), Beijing's objective was to build a complete domestic computer industry from scratch and avoid dependency on the West. China thus sought to attract foreign investment and technology, with which it would develop its own mass-production facilities. This

single-minded drive to acquire technology effectively distanced foreign investors, who were unwilling to hand over their expertise without the guarantee of substantive returns.

The Torch Program encourages enterprises to respond to market needs when choosing which products to develop.

Direct sales were another matter, however, and foreign vendors were eager to make inroads in the new China market. From 1981-85, China imported about $3.78 million worth of computer equipment, mainly high-end systems, such as mainframes. Decentralization efforts undertaken in 1984 led to a surge in imports, especially in the PC market, but many organizations imported foreign computers without considering the need for trained personnel to run the machines. As a result, much expensive hardware stood idle for want of operating know-how.

Chinese officials, alarmed at such waste, increased import duties and import licensing requirements to limit hard-currency computer purchases to key projects. As a result, imports dropped from 75 percent to about 65 percent of the $6.2 billion market by the late 1980s.



China's Computer Imports ($ millions)

Product	1991	1992
Parts & Peripherals	402	428
PCs	199	290
Multi-user systems	211	186
Workstations	90	115
Total	902	1,019

SOURCE: IDC

By 1986, China's attitude toward technology transfer began to change. Government leaders realized that their goals for technology acquisition were unrealistic, and began to negotiate more equitable deals with foreign vendors. Early in this second phase of development (1986-90), the first Sino-foreign computer joint ventures were formed (*see* p.21), and, with this influx of foreign technology, the domestic industry began to take shape. Efforts were concentrated on building facilities to manufacture PC and small-scale computer hardware.

Carrying a torch

In 1988, China's State Science and Technology Commission launched the ongoing "Torch Program" to accelerate the industrialization and commercialization of new technologies, including computers. Part of Beijing's efforts to shift from a centrally planned economy to one driven by market forces, the program encourages enterprises to respond to market needs when choosing which high-tech products to develop. Researchers developing products deemed commercially viable by Torch administrators receive State funding.

The program represents a marked change from Chinese practices in the past, when research institutes developed products which often had no relation to market needs. Researchers were encouraged to develop any new technology, regardless of whether it could realistically be applied or manufactured in China. Laboratory prototypes would rarely make it to the market. Under development plans such as the Torch Program, in contrast, scientists are urged to market and sell their results on the open market, rather than hand them over to government enterprises at cheap prices.

One Torch Program success story is Beijing University's acclaimed "Super" desktop-publishing system, which is used widely throughout the country. US-based Apple Computer, a world leader in the desktop publishing market, has cited the popularity of "Super" as one of the main obstacles to its entrance into the China market.

Directions for the 1990s

By 1991, China had completely abandoned its course of self-reliance in com-

puter production and entered a third phase of development. Instead of trying to manufacture all types of computer equipment on its own, China decided to import high-end equipment, including mainframes and minicomputers, while manufacturing low-end products.

This new-found pragmatism was in part a response to setbacks the industry suffered after the violence of June 1989. That year, imports of computer systems fell 23 percent and imports of computer parts dropped 48 percent from 1988 levels, due to the effects of the austerity program and the tightening of Western export policies after Tiananmen. The first quarter of 1990 showed a continuing decrease in computer imports, but China's domestic industry was unable to capitalize on the trend. Though imports recovered gradually over the next year, the 1989-90 market slowdown forced Beijing to take a closer look at the domestic industry and China's role in the global computer market.

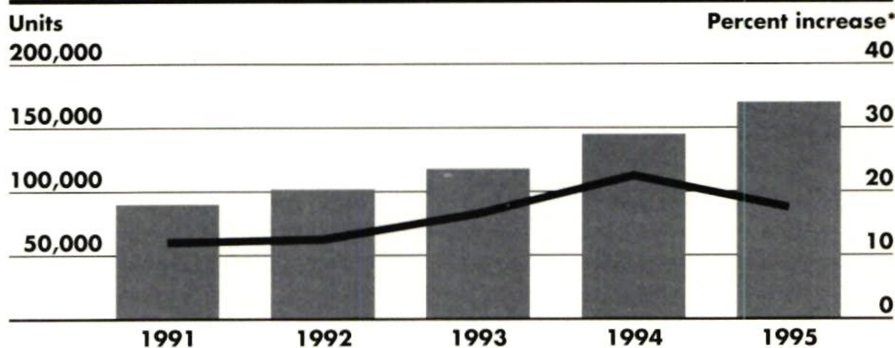
At this time, Beijing began to focus on the previously neglected areas of software development and information technology services. The concept of software as a viable industry is still a foreign notion to many users in China, who have long relied on pirated software. Beijing, however, now recognizes that one of China's strengths lies in its large pool of skilled software developers. The government is promoting these talents in the hope that China will eventually become a major center for software development.

The new MEI

Leading the industry on its new course is a younger, more energetic, and recently revamped MEI. After the National People's Congress (NPC) meeting in March, the Ministry of Machine-Building and Electronics Industry (MMEI) was disbanded and broken into its two original, separate ministries. The two had been merged five years earlier in an attempt to boost what was then a weak electronics industry. However, the enormous machinery industry overpowered the smaller electronics sector: by output value, the electronics industry accounted for only 9 percent of total output generated by MMEI industries in 1991. China's computer industry, in turn, accounted for

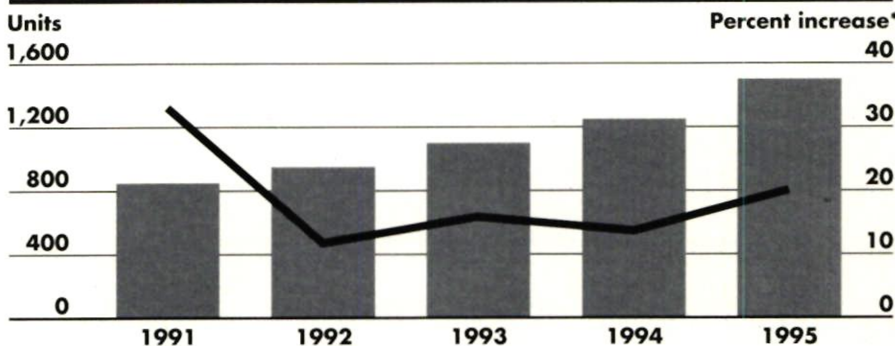
Chinese Demand for Computers, 1991–95

Microcomputers



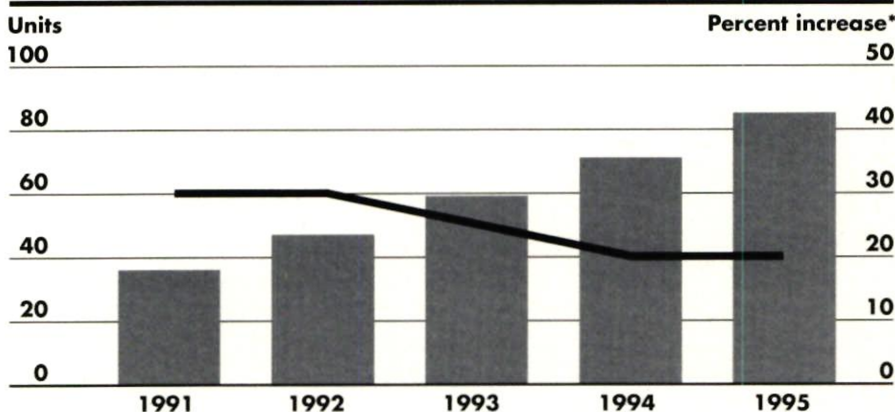
	1991	1992	1993	1994	1995
Sales (1,000 units)	90	102	118	145	170

Small-Scale Computers



	1991	1992	1993	1994	1995
Sales (units)	850	950	1,100	1,250	1,500

Medium- and Large-Scale Computers



	1991	1992	1993	1994	1995
Sales (units)	36	47	59	71	85

* solid black lines indicate rate of growth

SOURCE: IDC

only about 9 percent of the electronics industry's total output value.

Responding to pressure from the neglected electronics industry for increased government attention and funding, the State Council formed the China Electronics Industry General Corp. (Chinatron) in 1990 (*see The CBR*, January-February 1992, p.30). This new organization also proved ineffective, as it suffered from excessive bureaucracy and held no final decisionmaking power.

Following the dissolution of MMEI last spring, Chinatron, too, was disbanded, leaving MEI in charge of the computer industry. Led by Hu Qili, a former aide to ousted party chief Zhao Ziyang, the new MEI's development strategy is based on a policy dubbed "MWSP"—microcomputers, workstations, software, and peripherals.

China's goal under MWSP is to become a major supplier to the domestic and world markets of low-end PCs and peripherals, including printers, monitors, and circuit boards. Through mass exports of such products, China will be able to earn foreign exchange to import the higher-end systems and technology needed to sustain the growth of the computer industry. Although China's 1992 exports topped $1 billion—22 times the amount exported just six years ago, China's computer-related exports constitute only a small fraction of the global computer trade. As its domestic industry matures, China's export drive will become more focused and export volume should continue to increase.

Another MEI goal is to separate enterprise management and government administration in computer enterprises. As in other sectors of the economy, China's antiquated and inefficient State-run enterprises are impeding the domestic computer industry's growth. MEI's decentralization strategies involve setting loose 216 State-owned factories, including domestic leaders such as China Great Wall Computer Group, Langchao Electronic Information Industry Group, and Changjiang Computer Group. By 1995, these corporations will be weaned from government subsidies to compete on their own merits in the new "socialist market economy." Enterprises that cannot survive without government funding will have to go out of business. Great Wall and other State enterprises therefore have been diversifying into areas such as real estate, consumer electronics, and exhibitions.

MEI is also encouraging companies to go public to raise capital. China's Legend Group, currently the most successful Chinese computer company in terms of growth rate and profit margin, is preparing to list on the Hong Kong stock exchange in November. Several other companies are seeking to list in Hong Kong. The Beijing Stone Group, China's largest non-governmental computer conglomerate, listed on the exchange this summer. About $10 million raised by the public offer is earmarked for joint ventures and a similar sum is to be invested to expand Stone's distribution system.

Because Beijing sees the development of a domestic industrial base as key to continued economic success, the computer industry will be comparatively buffered from the recently announced austerity measures. China's economic czar Zhu Rongji recently stated that promotion of development zones can continue as long as the projects within them are related to new and high technology. Provided credit is not too thinly stretched throughout the economy under China's economic tightening, IDC predicts that China's computer market will grow at a relatively high average rate between 1993-95 (*see* chart).

Carving a global niche

While most foreign attention in the last five years has focused on China's computer imports, the country's computer export market has also grown significantly. In 1987, China shipped $45 million worth of products, mainly components such as power supplies, floppy diskettes, monitors, printer heads, and cables to markets in North America, Europe, and the Middle East. By the late 1980s, China began adding high-level products such as motherboards to its export base.

MEI hopes to export 1 million PCs annually by the year 2000. To meet this ambitious goal, domestic microcomputer manufacturing will be given high priority under MEI's MWSP strategy. China's aim is to establish itself as a low-end PC and component supplier rather than as a high-end manufacturer in direct competition with foreign firms. The hard currency earned from exports will be used

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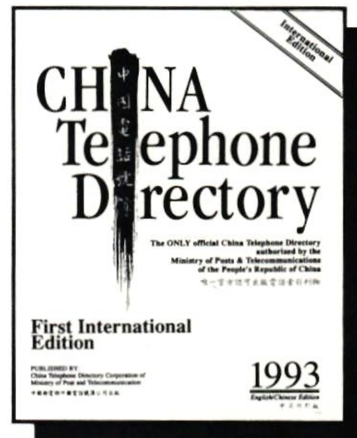

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to import the systems and materials necessary to produce low-end equipment. If China's enterprises succeed in establishing strong international distribution networks, this objective can be met. Legend Group already has been relatively successful in setting up channels in the United States, Europe, and Latin America and Beijing Stone Group is beginning efforts to replicate its extensive domestic network abroad.

Currently, only 5 of China's 36 major domestic PC manufacturers are capable of large-scale production, however. In 1992, China Great Wall Computer Group, Legend Group, Changjiang Computer Group, Langchao Information Industry Group, and the Yunnan Electronic Equipment Factory produced 82 percent of the domestically manufactured PCs sold that year. Great Wall, Legend, and Stone are all slated to step up their production, however, and AST and Compaq investments should become operational next year.

The market leaders

China's relatively recent emphasis on computer exports has in part been spurred by Beijing's efforts to join the General Agreement on Tariffs and Trade (GATT). The government wants to develop a niche in the world market to strengthen the domestic industry before fully opening China's markets to foreign competitors. China's eventual accession to GATT should aid foreign vendors, as import duties are expected to drop to around 15 percent and market access restrictions, such as the need for import licenses, will be lifted—at least in theory. Import duties have already been cut substantially over the past year, from approximately 82 percent in 1992 to 32 percent in March 1993, in accord with the market access agreement China signed with the United States in October 1992 (*see The CBR*, November-December 1992, p.9).

GATT aside, China will continue to rely on imports to fulfill growing demand for sophisticated minicomputers, mainframes, peripherals, and software. By 1993, the value of China's installed base of multi-user systems, workstations, and microcomputers is estimated to reach $6.4 billion. As a result, the market for networking software is on the rise, specifically in the financial sector, where data communication technology is vital.

The most imposing obstacle now facing China's domestic computer manufacturing capability is its dependence on imported chips.

To reduce dependence on any single country, China's central authorities have sought to diversify technology imports. Despite this official policy, US companies now account for about 70 percent of China's computer market in terms of shipment value. The large installed base of US equipment and the popularity US products enjoy among Chinese organizations indicate that the United States will likely remain dominant in the market.

Currently, IBM and Digital Equipment Co. dominate in the multi-user system market. IBM is also the leading mainframe vendor, supplying most government ministries and large organizations, while Digital is currently the largest small-scale supplier, with an installed base of approximately 3,000 units. Other top vendors in this market include Hewlett-Packard Co., Unisys, and NCR. Sun Microsystem Inc.'s 1987 entrance has given the company an early lead in the workstation market, but both Hewlett-Packard and Silicon Graphics are in strong positions in this area, having established manufacturing joint ventures in a sector Beijing has prioritized for future development.

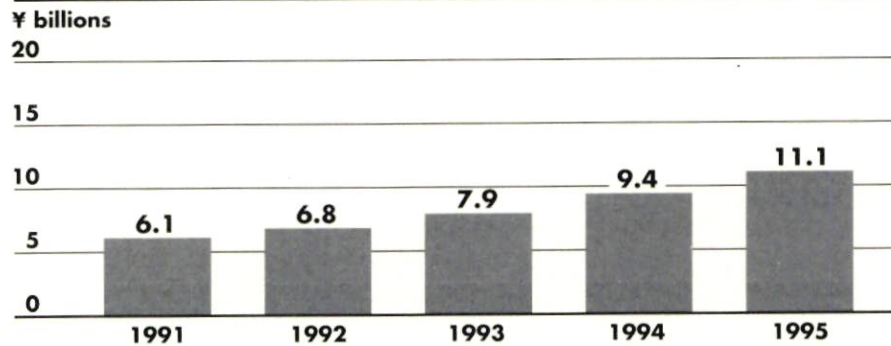
In the PC market, AST leads the foreign vendor pack, followed closely by Compaq, which has embarked on an aggressive campaign to overtake the leader. Taiwan vendors are also increasing their share of China's PC market, while Japanese and European companies, including NEC, Fujitsu, Bull HN, and Olivetti, are also active players.

While the "gray market"—computers sold through illicit means in order to avoid import restrictions—accounts for an additional 30 percent of sales above the official market, it does not seem to be seriously affecting sales of the major vendors. The market is aimed at China's small users, rather than the larger corporate and government users who are the main customers of foreign vendors. The actual danger of the gray market, according to some foreign vendors, is the negative impact illicit sales can have on a company's image since units sold on the gray market do not come with a manufacturer's warrantee. Compaq, for one, has publicly announced it will fight against unauthorized sales of its computers. As China removes its import restrictions in response to the 301 market access agreement and Beijing's bid for GATT membership, the gray market may lose some of its appeal.

All eyes on chips

The most imposing obstacle now facing China's domestic computer manufacturing capability is its dependence on imported chips. At present, China's integrated circuit (IC) production capabil-

China's Computer Sales By Value, 1991-95



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ity is extremely low and limited to ICs used in consumer goods, such as televisions and refrigerators. In the lab, China can manufacture chips ranging from 1-3 microns, but still cannot mass produce them. ICs at the 1-3 micron level are necessary for the production of basic computers such as Intel's 286- and 386-platform based PCs.

As a result, China must import almost all ICs needed for computer production. Although China is trying to build up its domestic IC production base, international restrictions imposed by the Coordinating Committee for Multilateral Export Controls (COCOM) prohibit China from gaining the technology needed to produce more complex ICs. For China to reach current Western standards of semiconductor technology, at least 20-30 years of research, development, and manufacturing efforts are needed.

Realizing the odds against successful solo production, China is actively searching for foreign partners to develop IC production capability. So far it has joined forces with NEC Corp., which has invested in a Beijing chip-manufacturing joint venture that can produce 50 million low-end 256 kilobyte D-RAM chips each year. The venture is expected to become operational by the end of this year. NEC will likely export 70 percent of the plant's output and will sell the rest on the domestic market.

One of China's major electronics conglomerates, the Shenzhen Electronics Group (SEG), is also looking to produce chips. The company last year announced plans to establish a sub-micron wafer fabrication plant in Hong Kong through a Hong Kong-based subsidiary. By establishing a manufacturing facility in Hong Kong, which holds intra-COCOM status, SEG could circumvent COCOM restrictions targeting China.

SEG's primary goal is not to manufacture chips, however, but simply to acquire submicron technology. By manufacturing in Hong Kong, SEG could absorb the technology and apply it to other uses in the future, although initially the company might have to go through normal COCOM procedures to sell back to Chinese buyers the circuits it makes with the technology. The project has apparently been put on hold, reportedly because SEG has not been able to find a foreign vendor willing to team up with it. Although transferring submicron technology to Hong Kong is currently allowed under COCOM regulations, whether this will be the case after Hong Kong reverts to Chinese control in 1997 remains unclear (*see The CBR*, May-June 1992, p.30).

Barriers to the market

Such international restrictions are among the main obstacles facing foreign vendors selling to the China market today. Digital's new Alpha AXP chip, a high-speed, 64-bit microprocessor, and Intel's Pentium, the company's fifth-generation 32-bit microprocessor, for instance, both require individual export licenses from the US Department of Commerce and COCOM. A number of US companies point to COCOM restrictions as a reason for slow growth in China sales this year (*see* p. 24).

> Growing competition, inflation, and the declining value of China's currency are making buyers more conscious of price *and* quality.

Aside from export controls, lax protection of intellectual property has been another major deterrent to China's market for foreign companies. In the past, US software companies lost millions of dollars in sales each year due to the prevalence of pirated software. Prior to last year, there was neither effective prohibition against duplicating imported software that was itself pirated, nor against modifying imported software before marketing it.

Now, however, thanks to China's recent moves to improve intellectual property protection by joining the Berne and other intellectual property protection conventions (*see The CBR*, March-April 1992, p.27), sales of foreign software and services to China are on the rise, and major US players are showing renewed interest in the market. Microsoft's licensing agreement, signed last year with a consortium of major Chinese vendors, has given it the lead in the software market (*see* p.27). The rise in demand for networking capability has also brought in 3Com Corp. and Novell Inc. and attracted other vendors like SynOptics Communications, Inc.

Looking ahead

China's development goals and projected growth rates for the computer industry are high, but seem to be attainable. In the short term, the devaluation of the *renminbi* (RMB) will drive up domestic prices, causing a build-up of inventories while users wait for the currency to settle. Inflation, which now exceeds 20 percent in some major cities, will also raise prices and shrink pocketbooks.

Despite these factors, however, the demand for computer equipment from big users, such as ministries, banks, and other financial institutions, will continue to be strong. Assuming that China continues to experience high levels of GDP growth and the move toward a market economy progresses relatively smoothly, new businesses and growing salaries will boost demand from private enterprises and home users. Sustained economic growth and increased computer use are related; a healthy economy will finance the drive to use computers to create modern, efficient economic structures, such as a central bank clearing system and data communication networks. Such infrastructure, in turn, will further stimulate economic growth and computer demand.

Foreign computer manufacturers have an important—and potentially lucrative—role to play in modernizing China's computer industry. There is no set formula to guarantee success, but carefully planned marketing strategies with an emphasis on service and support are key, as growing competition, inflation, and the declining value of China's currency are making buyers more conscious of price *and* quality. Despite the obstacles, visible or hidden, the current size of China's market, coupled with its potential growth, presents opportunities that cannot be ignored. 完

Working Out the Bugs

■ Saiman Hui and Hilary B. McKown

Despite early production problems, FIEs are well-placed for future success

To date, foreign investment in China's computer industry has been relatively low, totalling $300-400 million, according to IDC statistics. This low figure is due in large part to Coordinating Committee for Multilateral Export Controls (COCOM) restrictions on transfer of high technology to China. As it seeks to modernize its industrial and commercial structures, China is looking for the latest technology available and is adamant in its desire to avoid becoming a dumping ground for outdated equipment. However, much of the technology China wants and needs is heavily protected and cannot be transferred to China under current COCOM and US Department of Commerce regulations. Thus, foreign investment has been limited in scale and technology level. Investment to date has been primarily in personal computer (PC) workstation and integrated circuit (IC) production and assembly.

One of the largest investments made in the computer sector until now is NEC Corp.'s $200 million integrated-circuit joint venture. NEC holds 40 percent of the plant, which is designed to manufacture 50 million 1.5-micron chips each year. Most other computer-related joint ventures involve relatively small investments, usually in the $10 million range. Hewlett-Packard Co.'s two joint ventures—the $10 million China Hewlett-Packard (CHP), established in 1985 with China Electronics Import-Export Corp., Beijing Municipal Electronics Industry Administration, and China Great Wall Computer Group Co.; and the $9 million Huapu Information Technology Co. established with Shanghai East China Computer Corp. in 1991—have been doing relatively well in sales, but are not yet producing at capacity. CHP has been listed as one of China's top-10 joint ventures for the past five years, but most of its revenue is derived from sales of CHP's test and measurement equipment—not computers.

Huapu, which assembles CHP/Apollo workstations, has reported high sales, but few are believed to be of domestically produced systems. The venture cannot assemble the high-end range of its HP/9000 workstation series on a mass scale because of international restrictions. Instead, Huapu serves as the sole distributor for these advanced workstations, which supply much of the venture's revenue.

Wang Laboratories Inc. established a $1.2 million PC-manufacturing venture with Shanghai Computer Development Co. in 1986 to produce Wang's Chinese Computer System (CCS) and assemble the company's VS-series computers. However, the joint venture is not doing well and will be closed down this year, according to industry sources.

In July 1990, IBM and Tianjin Zhonghuan Computer Co. established the $10 million Tianjin Advanced Infor-

■ Saiman Hui is managing director of International Data Corp. China/Hong Kong Ltd. Hilary B. McKown is editor of the *China Informatics* newsletter.

mation Products Corp. joint venture. IBM for the first time provided a franchise license to a non-subsidiary company for the manufacture of its PS/2 line of PCs. The plant was originally set to manufacture 10,000 PCs in its first year, but reportedly has not been able to meet this goal due to shortages of parts. After almost three years of operation, production currently stands at only a few thousand units per year.

AST Research Inc. recently entered into a $16 million joint venture in Tianjin to assemble AST PCs. AST expects the venture, which has a designed production capacity of 100,000 units, to become one of its main manufacturing bases in Asia. The company's capacity is an extremely ambitious figure considering a total of approximately 190,000 PCs were shipped in China last year. Compaq Computer Corp.

DEALS

Foreign Computer Activity in China, 1990-93

Hardware

FOREIGN INVESTMENT

Griffith Micro Science International Inc. (a subsidiary of Griffith Laboratories, Inc. [US]) began trial production of 3.25-inch disk drives at the Jiannan Machinery Factory joint venture in Shekou, Shenzhen SEZ. 10/90

Hewlett-Packard Co. (US) and Shanghai East China Computer Corp. established the $9 million China Hewlett-Packard (Huapu) Information Technology Co. Ltd. joint venture to assemble and market HP/Apollo 9000 Series 400 computer workstations for the domestic market. 10/90

Juko Industrial Co. Ltd. (Hong Kong) with Beijing Pioneer Group Corp. and Huizhou Electronic Telecommunication Corp. established the $20 million Souhua (Huizhou) Electronic Industrial Co. Ltd. joint venture to produce computer chips and integrated circuits. (HK:85%-PRC:15%). 4/91

Apple Computer Co. (US) and Torch High-Tech Industrial Development Corp. signed an agreement to co-produce Macintosh computers in Xiamen. 10/91

AST Research Inc. (US) announced plans to establish a joint venture to produce 100,000 microcomputers per year in Tianjin. 12/91

Imaje Ltd. (France) and Nanjing Light Industrial Machinery Factory established the $1.58 million Imaje-Jinling Ink Jet Coder Ltd. joint venture to produce code printers in Xiamen. (France:60%-PRC:40%). 12/91

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

Toshiba Co. Ltd. (Japan) and the Hangzhou Machinery and Electrical Appliances Development General Co. established the ¥1.75 billion ($13.78 million) Hangzhi Machinery and Electrical Appliances Co. Ltd. joint venture to develop and produce parts, components, and software for Toshiba products. (Japan:78%-PRC:22%). 6/92

Silicon Graphics (US) annouced plans to join with five partners to manufacture the Iris Indigo workstation. 9/92

Conner Peripherals Inc. (US) and Shenzhen CPC (a subsidiary of China Electronic Import-Export Corp.) announced plans to form the $8 million Conner-Shenzhen Peripherals Co. joint venture to manufacture hard-disk drives. (US:60%-PRC:40%). 10/92

Taiwan Lite-on Technology Corp. (Taiwan) and Beijing Siwa Electronics Co. announced plans to establish a joint venture to produce advanced color monitors. 10/92

Compaq Computer Hong Kong Ltd. (a subsidiary of Compaq Computer Corp. [US]) with Qinghua University, Eekon Computer Systems (China) Ltd., and ComputerLand China established a $1 million computer training center at Qinghua University. 12/92

FOREIGN SALES

3Com Corp. (US) signed an agreement to sell PCs and minicomputers to Legend Technology Ltd. 11/90

Silicon Graphics Inc. (US) sold computer workstations to six design companies for $1.8 million. 12/90

Control Data Corp. (US) sold a mainframe computer system to the State Meteorological Bureau. 1/91

NCR Corp. (US) sold a Unix-based Tower 32/825 multi-user system and 15 NCR 2760 terminals to the White Swan Hotel for $513,000. 1/91

Compagnie des Machines Bull (France) sold five DPS7000/A1 medium-sized computers and five high-speed Mathilde MP6090.2 non-impact printers worth $1.72 million to the Hunan Post and Telecommunications Bureau. 3/91

NCR Corp. (US) sold 49 ATMs and 9 Tower 32/650 computers to the Industrial and Commercial Bank of China for $2.7 million. 3/91

IBM Corp. (US) announced plans to sell computers to Anshan Iron & Steel Co. in Liaoning Province for $8.4 million. 9/91

Digital Equipment Corp. (US) sold 12 DEC 5200 systems, 6 LANs, 150 terminals, 60 printers, and related systems application software to Tianjin Port Authority for $1.2 million. 11/91

has also entered into a PC-manufacturing joint venture, with the Beijing Stone Group as its local partner. Although this venture reportedly involves a much lower, and as yet undisclosed, level of investment and a lower level of production, it is still significant in that it reflects growing foreign interest in China's computer industry.

Taiwan companies, traditionally strong computer exporters, are also setting up shop in China. A shortage of labor and the appreciation of the New Taiwan dollar have driven up production costs for Taiwan firms, who are now eager not only to take advantage of lower labor and manufacturing costs, but also to tap the China market. Taiwan-based PC manufacturer Acer has stepped up its activities in China and claims to be doing substantial business there, despite an official Taiwan gov-

Unisys Corp. (US) announced plans to sell CAAC a 2200-600ES series mainframe for processing airline bookings and ticketing for $13 million. 1/92

Olivetti Hong Kong sold 150 banking workstations and 39 ATMs to the Shunde Municipal Agricultural Bank for $2.1 million. 6/92

Grant Tensor Geophysical Corp. and **Star Technologies, Inc.** (US) sold three high-speed computers and 3-D seismic processing software for oil exploration to the Daqing Oilfield in Heilongjiang Province for $755,000. 3/93

Smith Corona Corp. (US) and Primedtech, Tech Ping, and Nanfang Co. announced plans to form an alliance to market personal word-processors, portable electronic typewriters, and Coronajet 200J compact ink-jet printers in China. 4/93

Software

FOREIGN INVESTMENT

Business Decision Systems Corp. (Singapore) and Kehai High Technology Group established the Beijing CASE Software Technology Co. Ltd. joint venture to develop software for minicomputers using computer-aided software engineering. 9/90

Century Research Center Corp. (a subsidiary of C. Itoh & Co. [Japan]) and CITIC established the $135,667 Century Intelligence Software Co. joint venture to develop financial-management computer software. 10/90

Digital World (Hong Kong) Ltd. and Tianjin Industrial Development Co. (a subsidiary of CITIC) began developing advanced computer and telecommunications products at the $100,000 Tianjin Sunway Information Technology and Engineering Ltd. joint venture. (US:30%-PRC:70%). 10/90

Information Global Service (Japan) and Shanghai Metallurgical Institute established Dongshen Information Technology Co. Ltd. to manufacture computer software for export to Japan and the United States. 10/90

Digital Equipment Corp. (US) and Taiji Computer Corp. established the $1.15 million Shenzhen Taiji-DEC Software center to develop software for telecommunications, manufacturing, and networking. 12/90

IBM Corp. (US), Bank of East Asia Ltd. (Hong Kong), and Shenzhen University Software Development Corp. established the International Software Development Corp. joint venture in Shenzhen. 1/91

Japan International Development Organization (Japan) and Technological Science Development Corp. (an affiliate of Fudan University, Shanghai) established the $3 million Shanghai Sino-Japanese Software Co. Ltd. joint venture to train computer engineers. (Japan:66.7%-PRC:33.3%). 4/91

Kawasaki Steel System Research and Development Corp. (Japan) and Beijing Beike Information Processing Corp. established the $1.5 million Beijing Kebao Systems Engineering Co. Ltd. to conduct research and development of computer software for engineering applications. (Japan:51%-PRC:49%). 5/91

T&W Co. (US) and Shanghai Stone Corp. announced plans to establish a software joint venture in the Pudong New Area. 7/91

Bull HN Information Systems Inc. (a joint venture among Honeywell Inc. [US], Compagnie des Machines Bull [France], and NEC [Japan]) announced plans to establish a joint venture to produce UNIX application software in China. 12/91

Digital Research Inc. (US) and Beijing Stone Corp. announced plans to establish a joint venture to develop and market computer software and started joint research for a Chinese-character input system. 12/91

Word House (Netherlands) announced plans to establish a joint venture to develop and market computer software in Guangzhou. 12/91

AsiaGraphics Ltd. (HK) and China Venturetech Investment Corp. established the $1 million Asia Computer Technology Co. Ltd. joint venture to develop multimedia software. (PRC:65%-HK:35%). 7/92

FOREIGN SALES

Ashton-Tate Corp. (US) will market a Chinese-language edition of its dBASE IV program in Beijing. $1.1 million. 7/91

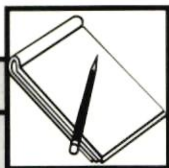
Hewlett-Packard Co. (US) will supply and install an integrated trading system to upgrade the Shanghai Stock Exchange's information infrastructure for $2.7 million. 2/93

Source: US-China Business Council files *This list is not intended to be comprehensive and has not been independently verified by* The CBR. *All deals are listed in US dollars, calculated at prevailing international rates.*

ernment ban on conducting high-technology business with the mainland. Acer has signed Yuji Co. to be its sole mainland distributor and reportedly is interested in establishing a manufacturing venture. Taiwan vendors Leo, Mitac, and Tatung have also done well on the mainland.

Although many of the ventures already established in China may not be operating as hoped, the political value of these investments remains high. The Chinese government favors those vendors willing to make a long-term commitment to the market through the establishment of joint ventures. These ventures are also extremely valuable to China in its bid to build up a domestic production base. For foreign firms, a manufacturing presence in China can be central to penetrating the Chinese market. Cooperation with domestic vendors allows foreign companies to tap into ready-made distribution channels and gives them vital connections to government officials. Cooperation with Chinese partners and a willingness to transfer technology are major ingredients for successful investments.

Should COCOM restrictions be relaxed, and/or the US export control regime be revised, foreign investment in China may increase further. In the meantime, small-scale investments will continue, but larger ventures involving high-level technologies will have to wait until the export control regime is revamped. 完



INTERVIEW

COCOM Frustrations

Massachusetts-based Digital Equipment Corp. has been selling computers to China since 1980. Digital maintains representative offices in Beijing, Shanghai, and Guangzhou, and operates a manufacturing facility in Shenzhen that produces computer components and peripherals. Robert Rarog, Digital's export policy manager, spoke with Assistant Editor Ann Amelia Flynn about export control obstacles hindering US computer sales to China.

CBR: *How do COCOM restrictions affect Digital's computer sales to China?*

Rarog: Digital produces a range of computer products, from PCs to mainframes, but current COCOM guidelines and US export control policy restrict Digital sales to microcomputers and mid-range workstations. As a result, we expect to lose up to $70 million in potential sales to China over the next two years. Restrictions on computers also hinder sales by US companies in other export sectors such as power generation, because those operations often require currently prohibited computer systems to run their equipment.

CBR: *Does China have any alternatives if Digital and other COCOM-nation manufacturers can't sell the needed technology?*

Rarog: The COCOM restrictions were put in place during the Cold War to protect US and Western security by curbing the access of East Bloc nations to advanced technology. But these restrictions do little to prevent Chinese endusers from acquiring computer systems at a level above COCOM limits. Non-COCOM countries such as Taiwan, South Korea, and India can provide systems that operate at twice the level the US government currently approves. Moreover, export controls are ineffective for small, easily transportable systems. Since targeted countries such as China can't import high-end equipment, they focus on developing their own high-performance systems by linking many smaller systems. Therefore, rather than preventing China's acquisition of high-end computer technology, export control restrictions encourage China to create their own systems, which cannot be tracked and are outside of US control.

CBR: *Does Digital face other US-imposed barriers to sales of high-tech products to China? If so, what are they?*

Rarog: Yes, even for systems approved for export to China, unilateral administrative burdens place US producers at a disadvantage to our competitors from Japan and other COCOM countries. Digital and other US firms have to meet US government pre-license checks, post-shipment verification procedures, and restrictive conditions on system use. The time it takes the US government to approve a license is a lot longer than that required by other COCOM countries such as Canada.

CBR: *What changes would you like to see made to US and COCOM policies regarding the sale of high-tech products?*

Rarog: We'd like to see US and COCOM export control policies reformed immediately so US computer producers can remain competitive in China. The current COCOM control level of 12.5 MTOPS is completely outdated. Systems at 110 MTOPS are already freely available in China and the COCOM control level should be raised to reflect that fact. All requirements for licenses up to 110 MTOPS should be eliminated and licenses above 120 MTOPS should be available for sale to non-military endusers subject to government review.

In addition, pre- and post-licensing checks should be curtailed or eliminated to put US exporters on an equal footing with those of other COCOM countries. We'd also like to see technical data controls relaxed to permit training of Chinese employees without onerous licensing requirements.

While we recognize the need for controls, they must be multilateral and effective in achieving national security objectives. Current controls serve only to exclude US exporters from China's growing market, with little commensurate improvement to national security.

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Council Elects New Board Members

At the June annual meeting, Council member companies elected Maurice R. Greenberg, chairman and chief executive officer of American International Group, Inc., to succeed Jonathan M. Schofield as chairman of the board of directors.

Joining Greenberg are several other new board members. They are: Lawrence W. Clarkson of The Boeing Co.; Dale W. Hilpert of Payless ShoeSource; Robert H. Malott of FMC Corp.; James E. Perrella of Ingersoll-Rand Co.; Pam Myers Phipps of China Products North America, Inc.; Kevin W. Sharer of Amgen Inc.; John R. Smart of AT&T; and William B. Webb of United Technologies Corp. A complete listing of the board of directors can be obtained from the Council.

Export Controls Working Group Re-established

Representatives of nearly 20 member companies attended the first meeting of the Council's revived Export Controls Working Group, held in Washington, DC, on July 28. Re-activation of the export controls group was timed to coincide with ongoing reviews of US export control policy in both Congress and the Administration. The increasing importance of trade issues in the US-China bilateral relationship was also an important factor in the Council's decision to reactivate the group.

Christopher A. Padilla of AT&T Inc. and Robert Rarog of Digital Equipment Corp. have agreed to serve as co-chairs of the Working Group. At the July meeting, Padilla outlined the group's goals. These include:

- Seek to ensure that China is included in any upcoming export control liberalization.
- Express the business community's views on export controls to Congress, the Administration, and the public.
- Serve as a source of information on export control issues for Congress and the Administration.
- Seek to narrow the scope of restrictions should China be singled out for sanctions for violating the Missile Technology Control Regime (MTCR).

Representatives of the group worked with Council staff to draft a position paper on the role of export controls in US-China trade relations. The paper was disseminated to members of Congress and the Administration in August. Working Group members have already begun to meet with key officials in the departments of State, Commerce, and Defense, as well as with members of the National Security Council and the National Economic Council, to discuss US export control policy. The next meeting of the Export Controls Working Group will be held in September to report on the progress of the lobbying efforts.

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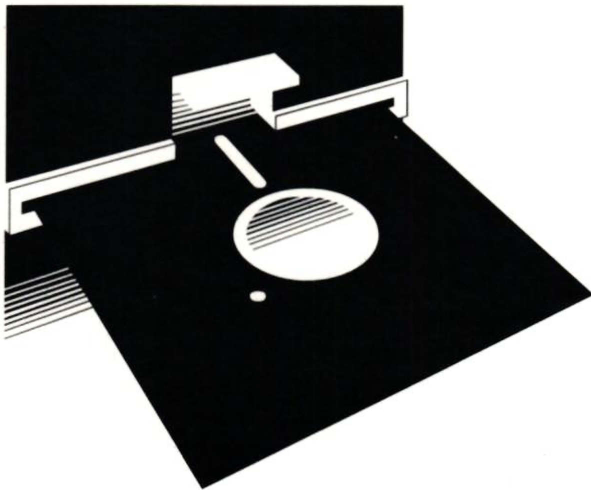

Windows to China

■ Debra Lee

Microsoft enters the mainland with a bang

When Redmond, WA-based Microsoft Corp. first contemplated entering the China market, our main concern was one shared by many high-technology firms: adequate intellectual property rights (IPR) protection. While the theft of intellectual property damages any firm that spends time and effort developing advanced products, in our business—the manufacture and distribution of microcomputer software—the problem is especially acute.

China's rate of piracy is among the world's highest; Microsoft estimates that close to 100 percent of the computer software in use in China consists of unauthorized copies. Most of the illegal software is passed among friends who are often unaware of the time and money invested in developing the software, and are ignorant of the legal implications of piracy. By comparison, software piracy rates in the rest of Asia are estimated at 85-95 percent and in the United States at 35 percent. Not only does the firm that falls victim to piracy suffer loss of revenue and possible damage to its reputation, the customer suffers as well. Users of pirated software run the risk of exposure to computer bugs and viruses and receive no technical support from the software vendor.

By signing the Special 301 agreement on IPR protection with the office of the US Trade Representative (USTR) in January 1992, China indicated its willingness to abide by international copyright standards (*see The CBR*, March-April 1992, p.9). In the agreement, China promised it would protect computer programs as literary works when it joined the Berne Copyright Convention, to which it acceded last October. With these assurances, Microsoft felt confident enough to establish an official presence in China. Although enforcement efforts have been slow, the Chinese government's stated commitment to improve software protection has encouraged foreign software companies to become more aggressive in China.

A Greater China outlook

Although officially Microsoft has been in China less than a year, we are no strangers to Asia and the Greater China region. In 1987, Microsoft established an office in Taiwan to oversee business in Taiwan, Hong Kong, and the mainland. The company was attracted by the software sales opportunities generated by Taiwan's 3,000 manufacturers of IBM-compatible personal computers (PCs). Our Taiwan operations now employ 80 people, and Greater China revenues last year topped $70 million.

In 1989, Microsoft first arranged for Hong Kong- and Taiwan-based software distributors with networks in China to distribute Microsoft products. These companies would export Microsoft products

■ **Debra Lee is subsidiary account manager for Greater China Region Far East marketing at Microsoft Corp. She has been with the company six years and holds a BS in mathematics from the University of Washington.**

into China and handle the necessary business transactions on our behalf. We stationed our first employee in China in the summer of 1992 to forge relationships with software-related government departments such as the China National Computer Software and Technology Service Corp. and the Ministry of Electronics Industry (MEI), which must approve all government software purchases in China.

Breaking new ground

In November 1992, Microsoft made its official entry into China's personal computer market by signing a landmark licensing agreement with a consortium of Chinese PC manufacturers, including China Great Wall Computer Group and Beijing Stone Group. The Chinese negotiators were cooperative and an agreement was reached in six months. Under the terms of the agreement, the Microsoft MS-DOS operating system will be installed in the PCs manufactured by members of the consortium. In essence, 95 percent of all PCs manufactured in China are now licensed to run on MS-DOS.

The licensing agreement sparked a flurry of requests from Chinese computer users for a permanent Microsoft presence in China. Microsoft, in response, opened a Beijing sales office, Microsoft PRC, this January. Our local presence has helped Microsoft become more accessible to a very enthusiastic computer community. On any given day, software users from all over the country visit our Beijing office to get answers and advice on technical problems.

The Beijing office racked up $1 million in sales in its first six months. With the first round of customer evaluations coming to a close and the release of simplified Chinese versions of our software, we expect Microsoft sales in China to reach $4 million by the end of the 1994 fiscal year. The current Beijing staff of eight local employees will be almost doubled to cope with the projected increase in sales, which should be especially strong for operating systems and Chinese-language software.

The Microsoft market

The typical Microsoft customer is a government-funded organization which purchases several copies of a Microsoft product. After evaluating the product for four-six months (a period which generally includes visits and phone calls to our Beijing office for technical advice), the customer usually returns to negotiate for purchase of hundreds of copies.

Currently, Microsoft sells Chinese-language software that employs the traditional Chinese characters used in Hong Kong and Taiwan, as well as English versions of Windows NT, LAN Manager 2.2, the FoxPro 2.5 database management system, the MS-DOS 6 operating system, and development tools such as the Visual C++ development system and the Visual Basic programming system, which help software developers create software applications such as spreadsheets. Microsoft expects Windows Advanced Server and Windows NT to become best-sellers. Like all of our China products, they are priced in *renminbi*. Microsoft and the Chinese government are currently negotiating arrangements for meeting the company's foreign exchange requirements.

In November 1992, Microsoft signed a landmark licensing agreement with a consortium of Chinese PC manufacturers.

Pillars of support

As its China business grows, Microsoft is investing in the infrastructure that will allow for further expansion. We are currently focusing on four key goals to support our activities in China:

■ **Build and strengthen sales and information channels** To operate effectively in China, Microsoft must develop a strong distribution network to service potential customers throughout the country. As it is not feasible to have contact with each PC software user, we rely on distributors, dealers, and third-party training centers to support and educate Chinese endusers and give them access to the latest technology and technical information.

We use this strategy, which we call the leverage model, worldwide, in the belief that if information is convenient and accessible, knowledge will spread. Such access not only helps the customer and boosts sales, it also takes some of the technical support burden off of Microsoft.

The initial steps in building this network began this summer. Microsoft PRC has already worked closely to train and support two large, established, Chinese software distributors. Microsoft and the distributors now jointly sponsor periodic technical and marketing training seminars for endusers throughout the country. Microsoft specifically targets as possible distributors users who have relationships with government organizations, our largest customers.

Other customers, such as the growing number of computer engineers and intellectuals hungry for up-to-date technical information, are targeted through seminars, customer visits, and instruction packages. The response thus far has been enthusiastic, reflecting a great pent-up need for information. Before we entered China, many people did not know where to go for answers to their computing questions or found it too inconvenient to track down information.

■ **Establish authorized training centers** Microsoft is actively working with top educational institutions to provide Microsoft-product training for programmers, systems administrators, and engineers. Recently, Qinghua University in Beijing was designated an authorized Microsoft training center to provide high-quality systems product training to institutions and future trainers. The courseware, written by Microsoft University in the United States and adapted by Qinghua, focuses on the company's high-end systems. This year, Microsoft will authorize an additional 50-75 training centers throughout the country to provide information on Microsoft products and computers in general.

■ **Develop top-quality, localized products** As the PRC government and individual companies continue to develop the Chinese information technology industry, the number of PCs purchased annually will rise. The majority of sales will be of PCs with enough speed and capacity to run Microsoft Windows, a popular program that uses graphics to allow the user

to work in a number of files and programs at the same time. The simplified Chinese-character version of Windows debuted in August and Microsoft plans to introduce simplified Chinese-character versions of the Word word processing and Excel spreadsheet programs within the year.

■ **Strengthen and enforce copyright laws** We hope the promise of quality support and virus-free original software direct from the manufacturer will be a major incentive in improving the software piracy situation in China. The Chinese government is the largest consumer of PC technology in China and central and provincial government officials are among Microsoft's top targets for intellectual property education. While it has used pirated software in the past, the Chinese government has signaled its commitment to purchase original software and should serve as a strong example to other software users.

However, the majority of the Chinese population currently views intellectual property as belonging to the public, contrary to international principles of IPR protection. Microsoft has aggressive plans to educate computer users through seminars, one-on-one meetings, and public relations efforts such as advertising and on-site promotions. The efforts will be conducted in conjunction with the Washington, DC-based Business Software Alliance (BSA), an international trade organization established to promote IPR and software copyright protection awareness worldwide. A Chinese branch of BSA is currently being formed.

Microsoft believes that China will become one of the most important software markets in Asia within the next decade, and we therefore intend to further develop and localize software products for the China market. The central authorities' support and cooperation in combating piracy, their commitment to investing in advanced technologies, their openness toward foreign trade and relations, and the high concentration of intellectuals and scholars all give Microsoft optimism for the future. As China begins to build its technology infrastructure, we believe technology vendors who have made an early commitment to the market, including Microsoft, will be well positioned for success. 完

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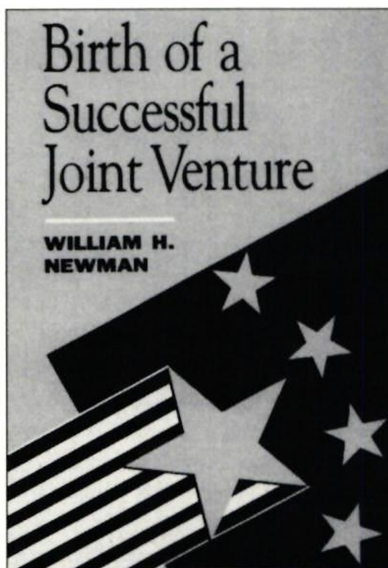
Birth of a Successful Joint Venture

by William H. Newman. Lanham, MD: University Press of America, Inc., 1992. 153 pp. $40.50 hardcover, $15.50 softcover.

Before initiating any large-scale project in China, US investors would be wise to pick up a copy of this clearly written and easily digestible book. The study of the slow, yet fruitful, formation of the Nantong Cellulose Fibers Co. (NCFC) provides thoughtful analysis of the negotiation and contract procedures followed by the two partners, US-based Celanese Fibers Operations and the Jiangsu Tobacco Co.

Despite its brevity, the book details a number of interesting facets of joint venture creation. Readers receive useful pointers on the advantages of using outside agents to facilitate the negotiation process, for example, as well as tips on cross-training Chinese managers at the US partner's home plant. Companies considering investments involving ongoing transfer of technology or the construction of new manufacturing facilities by Chinese contractors will also find this guide especially informative.



The author's focus on this particular joint venture's experience is a mixed blessing, however. On the positive side, the reader is exposed to the entire joint-venture establishment process, from the initial search for partners to full-scale operation of the plant. On the negative side, NCFC is an atypical joint venture because its Chinese partner's parent, the China National Tobacco Co. (CNTC), is responsible for balancing the joint venture's *renminbi* earnings and foreign exchange requirements. In addition, CNTC maintains a special arrangement with the Bank of China that guarantees hard currency will be available when CNTC is to buy Celanese's 30.68 percent stake in the year 2004. Thus, contrary to ordinary practice, the onus of balancing foreign exchange is placed on the Chinese side of the venture; NCFC's contract even prohibits exporting as a means of accomplishing this goal. Marketing, similarly, is not an issue for the venture as this, too, is handled through CNTC.

Most business readers would probably derive greater benefit from a case study of a more representative venture, in which the US partner experienced problems balancing foreign exchange, distributing its output, and maintaining production quality. Other key issues, such as employee housing and retention of key personnel, also merit more attention than provided in this study.

Despite these shortcomings and Newman's slightly haphazard compilation of anecdotes, *Birth of a Successful Joint Venture* constitutes a solid introduction to joint venturing. However, it should be perused with other studies to gain a well-rounded view of the difficulties typically encountered by most foreign investors.

—*Dan Martin*

Dan Martin is a Business Advisory Services associate at the US-China Business Council.

China Laws for Foreign Business

edited by Stephen FitzGerald & Co. and Michael J. Moser. North Ryde, Australia: Commerce Clearing House International, 1991 (with regular updates). $2,015 per complete set.

This Commerce Clearing House compendium is the best source of legal information for foreign companies doing business with China I have yet come across. Dealing with China's byzantine—and often secretive—foreign trade and investment regimes is a great challenge for every company, but this series provides information that can help foreign firms effectively navigate China's regulatory system. The series has quickly become a mainstay of the US-China Business Council's reference collection.

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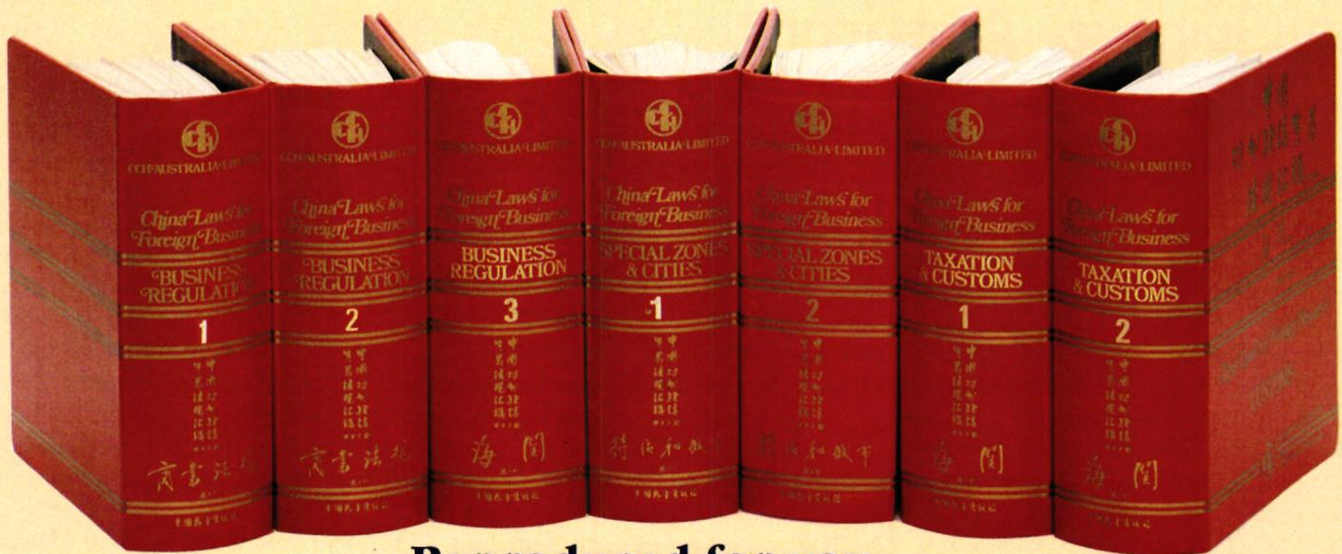
The components of the library can be purchased individually or as a set. The only drawback is the steep price, but legal libraries and corporate resource centers would be wise to purchase a set before their clients and firms invest far larger sums in China.

—*Richard Brecher*

Richard Brecher is director of the US-China Business Council's Business Advisory Services.

CHINESE BUSINESS LAW



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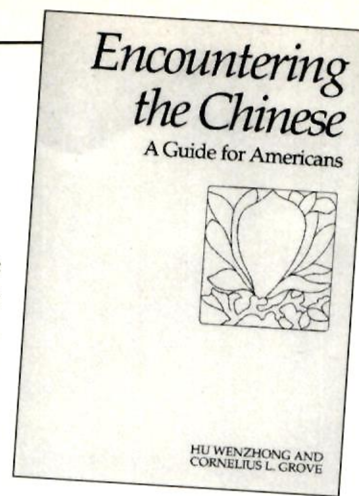
Encountering the Chinese: A Guide for Americans



by Hu Wenzhong and Cornelius L. Grove. Yarmouth, ME: Intercultural Press Inc. 1991. 244 pp. $16.95 softcover.

When a business deal is concluded in the United States, the negotiating parties shake hands and depart; in China, they go out drinking. Knowing to expect such cultural differences can help Americans in China avoid a great deal of frustration. Authors Hu (a vice president at the Beijing Foreign Studies University) and Grove (an American consultant specializing in intercultural training) are well qualified to guide US travelers and businesspeople through the ins and outs of China's seemingly idiosyncratic etiquette. Their book is composed of two parts: the larger portion offers advice on personal interaction with the Chinese, while the remainder focuses on living and working in China.

Most Americans will probably find the sections explaining how to adapt to Chinese ways particularly useful, since being polite is not always enough to ensure smooth relations, and what's cordial by American standards may not appear so to the Chinese. An American choosing not to spend time in group activities, for example, could be perceived as aloof by his Chinese hosts, who are likely to emphasize group cohesion. Appendices of useful expressions and business titles are also helpful.

On the whole, *Encountering the Chinese* is a valuable reference to have on your shelf—or in your briefcase. From negotiating an investment project to planning a hiking trip, the book gives concrete advice on how to communicate effectively with the Chinese in many situations. Those already familiar with China may find some of the information rudimentary, but most readers will appreciate this comprehensive guide to many of the more subtle aspects of Chinese etiquette.

—*Colin M. Thomas*

Colin M. Thomas, an intern at The CBR, *studies Asian history at Skidmore College.*

Private Business in China: Revival between Ideology and Pragmatism

by Willy Kraus, translated by Erich Holz. Honolulu, HI: University of Hawaii Press, 1991. 246 pp. $39 hardcover.

According to recent press reports, Communist China boasts 1 million *yuan* millionaires. But if you're curious about this dynamic new class of entrepreneurs and their businesses, *Private Business in China: Revival between Ideology and Pragmatism* won't tell you much. Kraus, a professor of East Asian Economic Studies at Germany's Ruhr University, chronicles how the Chinese government has grown less ambivalent and more positive toward private business as communist ideology has become a less potent force. However, he provides little analysis of the growth of the private sector itself.

First published in German in 1989, the book traces 30 years of government directives regarding the private sector. It also provides statistics on the sectors most dominated by private entrepreneurs; details the permits, fees, and taxes required of small businesses; and makes some general observations on the social, political, and economic effects of the private sector on Chinese society. After the events at Tiananmen Square, the book was "fundamentally revised," according to its foreword, and a conclusion discussing the long-term future of private business activity was added. The English translation was published two years later.

For the student of Chinese government, this book is a windfall: Kraus seems to cite every article and government announcement on the development of the private sector. For a general reader wishing to learn more about who's doing what in private industry, *Private Business*'s focus is too narrow. To demonstrate how "rapidly and efficiently Chinese market-oriented business initiatives have achieved a breakthrough," for example, Kraus tells of a peasant start-up housing company that launched its own crop-dusting airline in the mid-1980s. But *how* did these peasants set up their business? Kraus doesn't say.

To be sure, as Kraus points out, Beijing's treatment of the indigenous private sector affects foreign confidence in China. If China does not provide room for domestic private enterprise, foreign firms can hardly be expected to believe in China's reforms. The book foresees the trend of government encouragement of entrepreneurship despite the setbacks of the late 1980s, and notes the beginning of a warming of public attitude toward private businesspeople, who traditionally have been looked upon with suspicion in the PRC.

Private business in China has gained a lot of ground since Kraus revised his book in 1990. The rising contribution of the private sector to China's economy, the National People's Congress' stated goal of transforming the country into a "socialist market economy," and the growing trend of government officials "plunging into the sea" of private enterprise all warrant a closer look. In light of the fast pace of these changes, future books on this topic will need to take a much broader view in analyzing the impact of government policies on the development of the private sector. *Private Business* is fine for background, but readers wanting to learn more about the dynamic private sector itself will have to look elsewhere.

—*AAF*

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Megaproject: A Case Study of China's Three Gorges Project

edited by Shiu-Hung Luk and Joseph Whitney. Armonk, NY: M.E. Sharpe, 1993. 236 pp. $45 hardcover.

History seems to be repeating itself in China. Like the situation in 1989, the country's economy is overheating, inflation is soaring, and the population has grown restless over the long, hot summer. And, once again, the issue of the Three Gorges Dam is very much on the front burner, following approval by the National People's Congress in April 1992.

According to current plans, the 13,000 mw facility will be almost 2 km wide, powered by water from a 600 km-long reservoir. Though there has been no shortage of books criticizing China's decades-old dream of constructing this huge hydropower facility along the Yangtze River in Hubei Province, this latest volume, a compilation of articles translated from Chinese, provides a rare opportunity for non-Chinese speakers to experience first hand the depth and flavor of the equally long domestic debate on the merits of the project.

The book's editors have sought to balance the views of the opposing camps: five articles generally advocate that the dam proceed, while the rest focus on the drawbacks and costs. There is some unevenness in the editing, however, as the regulatory standards cited by various contributors differ and the use of footnotes is inconsistent. Still, most key aspects of the debate are covered in the volume. Aside from a few necessary excursions into the project's technical details, the text should not intimidate anyone new to the issue. The maps, data profiles, and flood prevention analysis are particularly instructive.

Luk and Whitney, both geographers from the University of Toronto, are no newcomers to the Three Gorges debate, as they also publish an ongoing monograph series entitled "Chinese Environment and Development." Their 40-page introduction in *Megaproject* is an excellent road map, one which provides a clear picture of the issues at stake. Though both editors are skeptical about the purported benefits of the dam project, in their attempt to provide a balanced overview they don't mention some of the human and environmental costs involved.

If built, the Three Gorges Dam would dislocate 1.2 million people, uprooting entire communities. A world-renowned natural wonder—China's equivalent to the Grand Canyon—would be flooded, submerging forever a number of archaeological sites. And the dam is likely to have some unpredictable effects on agriculture and fishery, as well as on the entire Yangtze River ecosystem, which is home to endangered species of sturgeon, dolphin, crane, and alligator.

As China pursues its modernization drive, some development goals will surely entail trade-offs. The editors of this volume provide a means of delving deeper into the nature of these costs. As for the future of the Three Gorges project itself, the book offers no answer, but this is perhaps to be expected. The construction start-up date could be delayed considerably by the tighter fiscal policies Beijing announced this summer, as well as by the uncertain political future of Premier Li Peng, one of the biggest proponents of the dam.

—*Haipei Xue*

Haipei Xue is coordinator of the International Three Gorges Coalition, an alliance of environmental groups and individuals working to broaden international awareness of this issue.

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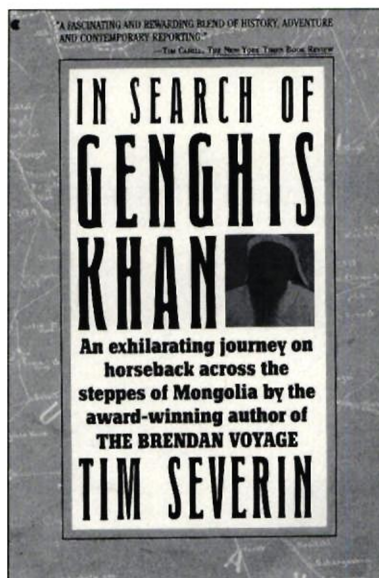
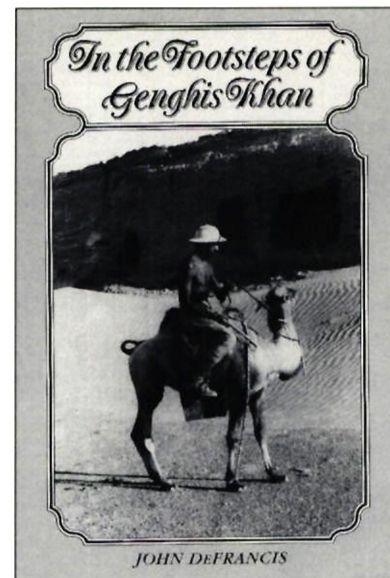
In Search of Genghis Khan

by Tim Severin. New York, NY: Collier Books, MacMillan Publishing Co., 1993. 241 pp. $13 softcover.

In the Footsteps of Genghis Khan

by John DeFrancis. Honolulu, HI: University of Hawaii Press, 1993. 284 pp. $29.95 hardcover.





We get a lot of review books at *The CBR*, but it's rare to receive two in one week about the same fellow. Yet Genghis Khan, one of history's greatest conquerors, certainly warrants the coverage. Perfect complements, these two books made for a delightful gallop across the Gobi Desert and the Silk Road—especially from the air-conditioned comfort of my trusty arm chair.

Tim Severin, who has made a career out of tracing the route of Marco Polo and recreating the mythical voyages of Jason, Sinbad, St. Brendan, and Ulysses, is clearly an old hand at re-living ancient history through modern travels. Like his earlier books, *In Search of Genghis Khan* is a captivating blend of history and travel writing. Readers are sure to enjoy Severin's depiction of the highlights of the Great Khan's military career, as well as the book's exploration of Mongolian shamanism in the 20th century. Written just as Mongolia began to sever its ties with the former Soviet Union, the book also presents a fascinating look at a people and a land largely inaccessible for much of this century. Severin's horseback journey is all the more intriguing thanks to the author's analysis of Khan's legacy on modern-day Mongolia.

The DeFrancis book is also hard to put down. And anyone who has spent time studying John DeFrancis' Chinese language series will be relieved to read something of his without worrying about an impending quiz! *In the Footsteps of Genghis Khan*, though published for the first time in 1993, actually describes a trip taken by the author in 1935, when he and a Canadian friend rode camels from Jiuquan in Gansu Province north across the Gobi Desert into Mongolia—essentially taking Genghis Khan's southbound route along the Black River in reverse. DeFrancis' camels sound hardly more friendly than Severin's Mongolian ponies, though, and bad weather, poor food, and bureaucratic obstacles seem little different in the two accounts, despite the passage of over half a century.

DeFrancis's encounters with the warlords who controlled much of the area make for interesting reading, as does the author's mad dash down the Yellow River to civilization after the Communist forces push north and cut off the road between Lanzhou and Xian. The descriptions and drawings of some of the ancient, often ruined towns DeFrancis visits are enough to make any desk-bound Sinophile saddle up for adventure.

You won't find business statistics, corporate strategy, or marketing insights in either book to help your sales or investment goals in China and Mongolia, but if you're heading to this part of the world, be sure to bring some suntan lotion and both of these volumes. —*VLW*

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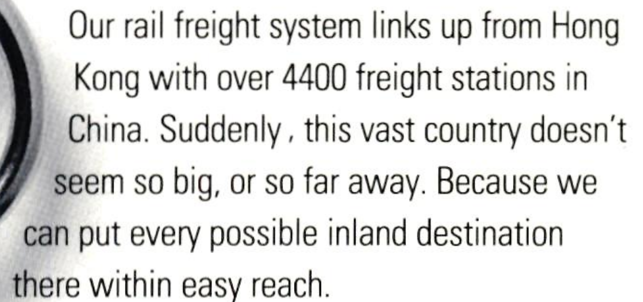

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Regulating Real Estate

■ Alexa C. Lam

Beijing's efforts to reassert control should improve buyer safeguards

■ Alexa C. Lam is a partner with the Hong Kong law firm of Kao, Lee, & Yip. She specializes in China business and has been involved in a number of China real estate and retail joint ventures.

According to a Confucian maxim, you must have land before you have people, and you must have people before you have wealth. This traditional view, bolstered by Leninist theories which condemn private land ownership, has led China's leadership to guard land rights jealously. Since 1949, the communist government has considered land an invaluable source of strength for the State.

In the last decade, however, Beijing began to unleash the factors of production previously controlled solely by the center—land, labor, and capital—in order to modernize the country. Before 1988, no organization or person could appropriate, buy, sell, or lease land. The government had the absolute prerogative to allocate land to State-owned enterprises and other users for specific purposes. Allocations were made basically free of charge and for indefinite periods; the land itself had no market value. In the past five years, however, this situation has changed dramatically.

To liberate land as a commodity, China amended its constitution in April 1988 to stipulate that while the State would retain land ownership, land-use rights could be transferred (*see* box). The amendment basically separated the absolute ownership of land from the right to use and occupy the land. A plethora of national and local regulations followed, detailing in varying degrees the procedures for granting and transferring land-use rights (*see The CBR*, March-April 1991, p.12). While the bulk of land grants continue to be issued on an administrative allocation basis, in the late 1980s the government began to experiment with compensatory land grants, selling them for substantial prices and for finite terms of up to 70 years.

The current market

In 1991-92, a large number of Chinese enterprises were gripped by real-estate fever. Hoping to follow in the footsteps of those who became billionaires riding real-estate bull markets in Hong Kong and Taiwan, both State-owned and private enterprises plunged into the market. Chinese firms abandoned or converted their existing businesses, knocking down factories and relocating staff housing to clear land for development. Some enterprises even acquired large tracts of farmland to develop into residential and commercial properties for sale to Chinese companies and individuals. The supply of land stock and homes for sale, especially in South China, soared.

Demand for domestic housing lagged behind the supply, however. For while the disposable income of the average citizen has increased significantly since China introduced economic reforms, most individuals are still unable to come up with the necessary down payment to purchase their own homes. In addition,

40-odd years of communist rule have conditioned the Chinese people to take cheap, State-provided housing for granted.

Given the small size of the domestic market for private housing, many developers have focused instead on attracting foreign buyers. Foreign housing, which generally is built to higher standards than domestic housing, can be sold to foreign companies or individuals. Hong Kong, the target of most of China's foreign property developers, witnessed a slew of China real estate seminars, workshops, and other sales promotions in 1992. Over 94,000 mainland housing units were offered for sale in the territory last year; some 30,000 units were snapped up. The widespread perception among these purchasers was that Chinese real-estate prices—a fraction of those in the territory—were bound to rise, given China's rapid economic development.

To discourage such speculation and its inflationary effects, Vice Premier Zhu Rongji, in the 16-point program he introduced in July to strengthen macro-control over the economy, stipulated that loans for real estate projects are to be curbed (*see* p.4). Although this clampdown has already dampened the Chinese real estate market, central authorities stress that land-use rights will continue to be granted, albeit on a more orderly basis.

Against this backdrop, Hong Kong buyers are now more hesitant about purchasing property on the mainland. In addition, given the difficulty in obtaining financing from Chinese banks, many developers have delayed their plans to market Chinese property in Hong Kong.

Caveat emptor

Most of these foreign housing developers to date have been Hong Kong corporations (*see The CBR*, November-December 1992, p.51). The companies that have obtained some of the best sites are not development powerhouses, however, but thinly capitalized, publicly listed Hong Kong manufacturers in South China. These companies use local connections to wangle sweetheart land deals from Chinese government officials and land bureaus, then pre-sell housing units in Hong Kong and earn handsome profits (*see The CBR*, November-December 1992, p.44). In a typical deal, up to 50 percent of the purchase price is collected up-front by the developer, with the balance payable when the units are completed.

Apart from a few cities such as Shenzhen, Guangzhou, and Shanghai, which have promulgated their own regulations, China has no laws prohibiting or regulating the pre-sale of uncompleted units. In spite of the leadership's recent moves to curb speculation, national legislation to protect the consumer against developer default has yet to be promulgated.

Loans for real estate projects are to be curbed, but land-use rights will continue to be granted.

Thus, foreign investors looking to purchase property in China should first ensure that the property in question has been obtained and developed legally. Last year, a few Hong Kong purchasers got stuck when they unwittingly pre-purchased domestic housing units from a developer in Shenzhen. The purchasers could not obtain land and house property ownership certificates until the developer paid an additional land fee, since the land fee for foreign housing development is substantially higher than that for domestic housing. Tempers flared when the developer tried to pass the costs on to the purchasers. In this case, Shenzhen authorities intervened and both parties were ordered to cover a share of the additional fee.

Even if the proper fees have been paid, other problems may arise. Many of the developments pre-sold in Hong Kong last year were located in rural and suburban Guangdong. The units were purchased at relatively attractive prices of $22-$46/sq ft—compared to the going rate of $100/sq ft or higher in Shenzhen, Shanghai, and Beijing (*see* table). These pre-sale prices typically incorporate anticipated construction costs in addition to land fees.

The risk to potential purchasers stems mainly from the construction costs, which many developers incur only after the units have been pre-sold. Since prices of steel and cement have increased 100-300 percent in the last year, construction costs today are at least $40/sq ft in more remote areas, and substantially higher in cities such as Shenzhen, Guangzhou, Shanghai, and Beijing. As the prices of construction materials will likely continue to rise, even developers who pre-sold units at the upper end of the scale face possible losses. Some developers might decide to default instead, either abandoning construction or simply not starting at all.

Thus far, no developer has defaulted, though the market is bracing for this event. The Hong Kong response to Chinese pre-sale property offerings in the first half of 1993, for example, was lukewarm. Many Shenzhen units marketed to Hong Kong buyers remain unsold, despite a 10-20 percent dip from 1992 peak prices. Luxury developments and villa-type housing, especially in the smaller cities or more remote areas, have ceased to attract buyers. Interest in smaller residential housing units and prime commercial premises in Shanghai and Guangzhou, however, still remains quite strong.

Added to the burden of soaring construction costs are the additional fees some local Guangdong governments recently have begun levying on foreign developers. The city of Huiyang, for instance, announced that as of September 1, 1992, an urban development fee would be assessed on housing units sold to foreigners. The extra fee allegedly covers the city's expenses in providing water, sewage, and electricity services. Both local and Hong Kong developers have united to protest this charge, and, so far, the Huiyang government has not implemented the fee. The imposition of various additional charges by local governments seeking to fill their coffers could well become a national trend if Zhu Rongji's economic program is unable to cap the excesses of the provinces and municipalities.

Views come cheap

Even if a developer is competent and trustworthy, foreigners looking to buy

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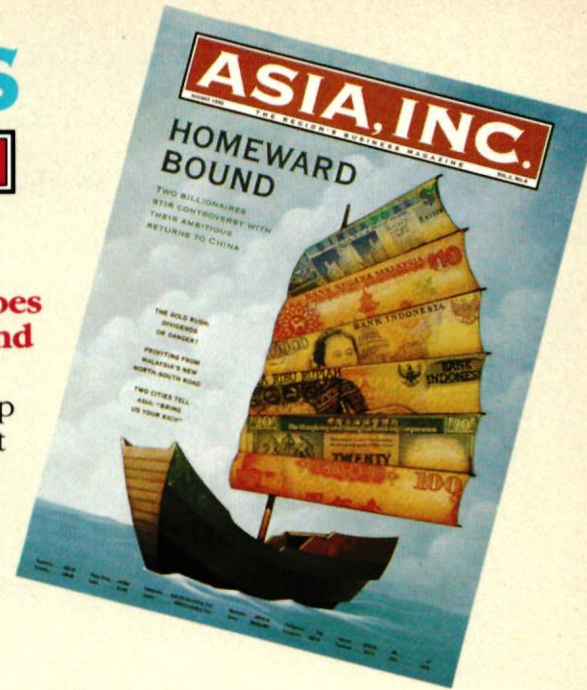

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houses in China should realize that some of the modern amenities they take for granted may not be available in a home purchased in China. Most Chinese towns lack sophisticated environmental planning and zoning systems, for example, meaning a foreign purchaser has little assurance his luxury villa won't end up next to a sewage treatment plant. Moreover, in areas such as Huiyang, Danshui, and other towns which lack basic utilities, interrupted electricity and water supplies can be a headache for residents of the multi-story buildings typically built for foreign buyers.

Land Use Dos and Don'ts

While most land in China is still allocated administratively by the State, compensatory land-use rights, which may be sold to the public, are becoming increasingly common. Compensatory land-use rights are subject to the following rules:

■ **Fees** The grantee usually must pay a substantial land fee up-front, although occasionally the fee can be paid in annual installments. The grantee must also pay any relocation or land development fees, as well as annual land-use fees, which are generally quite nominal compared to the initial land fee. An owner of compensatory land-use rights is permitted by law to sell, lease, transfer, or mortgage these rights. Compensatory land-use rights can also be passed on upon the death of the grantee.

Compensatory land-use rights are granted through private contracts, tender, or public auction. In each compensatory grant, a land-use contract must be entered into by the local land bureau and the grantee. This contract sets out the conditions of the grant, including the use restrictions, construction requirements, initial land fee, and other expenses, such as land development fees.

When compensatory land-use rights are transferred in certain cities, a land appreciation fee must be paid by the seller. This fee is levied on a progressive scale based on the amount of capital appreciation. The rates vary from city to city and can be quite steep. In Shenzhen, for example, the maximum rate is 100 percent of the rise in price.

■ **Mortgages and leases** Although China does not have a national mortgage law, a number of regional mortgage regulations have been promulgated, first in Shenzhen in 1986, and later in cities such as Shanghai, Guangzhou, and Dongguan. With or without legislation, domestic banks have granted land developers mortgage loans, using the compensatory land-use rights and the ownership of any buildings on the property as security. Through their branches in China, some foreign banks, including the Hong Kong-based Bank of East Asia and the Hong Kong and Shanghai Banking Corp., have granted mortgages to purchasers of properties constructed by developers in accordance with compensatory land-use rights. The mortgages are granted for short terms—usually 10 years or less.

Compensatory land-use rights can also be subject to a lease. By and large, China has no tenancy legislation, with the possible exception of Shenzhen's House Property Leasing Regulations, promulgated in December 1992. These regulations set out in rudimentary terms the rights and obligations of landlords and tenants in Shenzhen. The measures focus largely on the duties and obligations of the landlord toward the tenant.

■ **Ownership of buildings** While Chinese law does not permit private ownership of land, private ownership of buildings is allowed. Owners of land-use rights (whether allocated or compensatory) who erect buildings obtain certificates stating their absolute ownership of those buildings. Thus, an owner has two title certificates—one for the land-use rights and one for the building itself. Such a situation not only complicates title search and verification procedures, but can also encourage fraud. In Shenzhen, for instance, one loan-seeking land owner pledged his land-use certificate to one bank and his building ownership certificate to another bank for separate loans. Each lender unwittingly secured its loan on the same site. Since that incident, Shenzhen has merged its two registration bureaus and now issues one certificate of ownership covering both land-use rights and buildings.

■ **Unlawful transfers** As economic activity has fueled stronger consumer spending power and heated up the real estate market in South China, owners of allocated land-use rights have attempted to cash in on the boom by selling or transferring their land-use rights without first paying to convert them into compensatory land-use rights.

The government views such transactions with great alarm, for it sees the transfers as attempts to cheat the government of its rightful revenue. To prevent such abuses, the State Land Administration Bureau in March 1992 promulgated the Provisional Rules on Administration of Allocated Land-Use Rights (the Rules). Under these rules, allocated land-use rights can only be transferred, leased, or mortgaged if the owner has signed a compensatory land-use contract with the relevant land bureau and has paid the up-front land fee.

The Rules also clearly state that if an owner of allocated land-use rights attempts to invest those rights in a non-manufacturing joint venture, this move will be treated as a transfer and the original owner or the joint venture will then have to pay the land fee. Though this rule has not been uniformly enforced, the current trend is to crack down on unlawful transfers of allocated land-use rights.

Though not so stated in the regulations, the State Land Administrative Bureau has explained that the Rules would not apply in the case of a Chinese partner injecting its allocated land-use rights into a bona fide manufacturing joint venture. In such a scenario, the Chinese partner would not be required to convert the allocated land-use rights into compensatory land-use rights.

In an international context, these restrictions are quite fair. Special-purpose land grants, which are typically made for no consideration or at a below-market price, are generally subject to transfer and other restrictions in most markets.

—Alexa C. Lam

Such inconveniences are reflected in the price of Chinese properties. Generally speaking, units on lower floors cost more money—the opposite of the pricing structure in Hong Kong. The price reflects the common occurrence of blackouts, which disrupt elevator service. People do not want to climb 20 flights of stairs; fewer steps thus translate into higher prices. As a result, a condominium commanding a bird's eye view of a Chinese city is cheaper than one that looks onto a neighbor's backyard.

For sale: new units only

Thus far, the Hong Kong buyers of residential real estate in China are a varied crowd that includes speculators, Hong Kong Chinese looking for retirement homes or housing for relatives, and foreign firms requiring local residences for staff.

Even though selling prices for new units rose in 1991 and 1992, a secondary market has yet to appear for several reasons. First, the Chinese government's attempts to eliminate speculation—rampant buying and selling of property with a view to making quick profits—make it difficult to transfer certain units. In Shenzhen, for instance, a unit cannot be resold until the entire development is completed. The steep land appreciation fee imposed on the transfer of land by Shenzhen and several other cities is an added disincentive; many Hong Kong buyers are unaccustomed to paying capital gains taxes and view the fee as a heavy burden. According to the July Policy Regulations issued pursuant to Zhu's 16-point program, capital gains taxes are to be implemented across the country, though the amount has not been specified.

The development of a true market for previously owned housing has been further stalled because new property units continue to be offered in abundance, leaving potential buyers with no motivation to purchase an existing unit. Yet, without a secondary market, China cannot truly have a healthy, sustainable real estate sector. If Zhu's proposals slow real estate sufficiently, a secondary market might eventually develop, provided that affordable financing is available to would-be buyers. Thus far, the July Policy Regulations have pinpointed some 3,500 development sites or zones which have not been approved by the State that will be shut down. The potential impact of this move on foreigners and foreign developers, however, is not yet clear.

A foreign purchaser has little assurance that his luxury villa won't end up next to a sewage treatment plant.

New legislation

Faced with these and other difficulties, the State Council and the Ministry of Construction are developing a consolidated national real estate law. Sources in Beijing claim that the discussion draft of this new law has been agreed upon by the State Council, the State Land Bureau, and the Ministry of Construction. The purpose of this law reportedly is to regulate the transfer of land and close present loopholes that allow speculation.

The new law will require foreign investors, upon obtaining compensatory land-use rights, to commence and complete construction within a set timetable. In fact, under the current economic tightening, the provinces are already required to review all land grants (both allocated and compensatory). Building must generally commence within two years of the grant or the grantee will be subject to forfeiture. Guangdong Province has already begun to implement this review.

To deter speculators who acquire land and simply wait to sell the undeveloped lot once land values climb, the consolidated law will supposedly require the grantee to inject 25 percent of the capital required to complete the project before he may transfer the lot. Developers who bought cheap land and did not begin construction would therefore find it difficult to unload the land without suffering losses. If a foreign developer who has already obtained land-use rights wishes to pre-sell uncompleted units in a development on the lot, he must have invested over 20 percent of the total land price and construction costs before permission to pre-sell units can be obtained.

The new land law apparently also will impose more stringent requirements on the licensing of developers. All developers, domestic and foreign, will have to be graded, either by the construction department or by the relevant local land administration bureau. In addition, developers will have to register with the State Administration of Industry and Commerce. The new regulations are also expected to include provisions to regulate housing prices.

It is not clear if the law will reverse current practice by recognizing that ownership of land-use rights on a site and ownership of buildings on the same site are related and therefore require consolidated title certificates. In order to protect purchasers' interests, the law should establish a clear title registration. It should also institute measures requiring developers to use pre-sale revenues only for meeting the costs of ongoing construction.

Thinking things through

In order to regulate and create a stable real estate market, legislation alone will

Sale Prices of China Properties Offered in Hong Kong*

Location	Price per sq ft
Beijing	$129 - 146
Dongguan, Guangdong	$24 - 127
Fuzhou, Fujian	$29 - 45
Guangzhou, Guangdong	$47 - 135
Panyu, Guangdong	$14 - 49
Shanghai	$54 - 157
Shantou, Guangdong	$34 - 65
Shenzhen, Guangdong	$76 - 197
Xiamen, Fujian	$72 - 77

* First-quarter 1993. All prices have been converted from Hong Kong dollars.
SOURCE: Alexa C. Lam

not be sufficient, however. The government must articulate a rational land policy, setting out the country's overall development goals and planning, zoning, and social requirements.

Right now, compensatory land grants constitute a minute percentage of total land grants awarded in China. Moreover, these land grants are almost always awarded by contract rather than through auctions or tenders, increasing the likelihood of land being acquired on an undervalued basis. Until the ratio of administrative to compensatory grants becomes more balanced and compensatory grants are doled out through tender or auction, unlawful and below-value transfers of land will continue. Such activity distorts the market and reinforces the prevalent attitude that personal relationships with officials can be used to avoid strict compliance with the law.

The July Policy Regulations might help stem corruption, however, as they stipulate that the central government will set a minimum price for all land sales; local governments will not be allowed to sell below that price. However, the Regulations do not specify how the floor price is to be set or enforced. Furthermore, it is unclear if the central government will be able to make the provinces and cities implement these policies.

> It is unclear whether the central government will be able to make the provinces and cities implement the new policies.

If the government truly wishes to regulate the market and ensure healthy, sustained growth, it should focus on encouraging the development of a secondary market. This will require, first and foremost, an orderly land grant policy. To this end, the July Policy Regulations stipulate that all land is to be sold through tenders or public auctions. The field for intermediary agents such as realtors, appraisers, and property consultants also needs to be developed to help create the framework needed for the market to run smoothly. And in order to control and regulate both the primary and secondary markets, the government should make use of market mechanisms such as interest rates, home mortgages, lending limits, and taxes to help regulate supply, demand, and price.

Thus far, China's current economic tightening and the July Policy Regulations suggest that the country is taking steps in the right direction. The discussion draft of the new consolidated land legislation was prepared before the imposition of the current economic policy, however, so it remains to be seen if—and to what degree—this draft will adopt the principles of the new economic plan, and how the land law will be enforced in the cities and provinces, particularly those far from Beijing. 完

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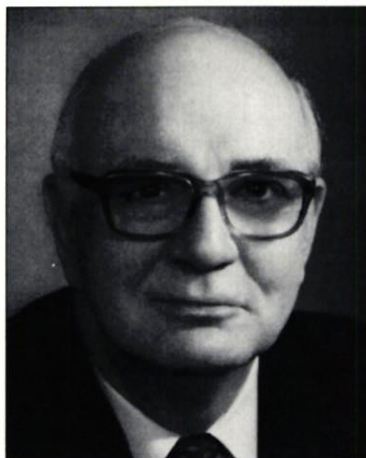


INTERVIEW

Looking East

Best known as the stogie-smoking chairman of the Board of Governors of the US Federal Reserve System from 1979-87, Paul A. Volcker is active in many organizations dealing with international business. Aside from his current position as chairman of James D. Wolfensohn Inc. in New York, Volcker also serves as the US chair of the US-Hong Kong Economic Cooperation Committee. He recently spoke with Editor Pamela Baldinger about the activities of the committee and his insights into US policy in the Asia-Pacific region.

Q Tell me about the US-Hong Kong Economic Cooperation Committee. How did you become involved with this group?

A The committee's purpose is to promote good business relations between Hong Kong and the United States. Traditionally, it has had heavy representation on the American side from importers, particularly retailers. Now the membership, like the relationship itself, is getting broader.

I got involved with the group simply because this firm [Wolfensohn] has important relationships in Hong Kong and some of our key contacts are very active on this committee. I became co-chairman three years ago. During this time, the committee has become deeply concerned with China-related issues.

Q How often does the committee meet?

A The committee essentially meets once a year, usually during the spring, for an exchange of views between the Hong Kong and American members. China's Most Favored Nation (MFN) status has figured heavily on our agenda in recent years. This year, Hong Kong's relationship with China was also of great interest to the American side. The purpose of the meetings is to make sure there is understanding on issues of common concern. The group is composed of members from the private sector, though some of the Hong Kong participants serve on the Governor's Council and other such bodies. The members are selected by the two co-chairmen—it's no more democratic than that!

Q How do you perceive Hong Kong in terms of financial risk, given the uncertainty of its transition to Chinese sovereignty?

A It was evident at this most recent meeting that attitudes toward Hong Kong's future change pretty rapidly. There was less concern, less nervousness this year than there was a year ago, or three years ago. Just why that is I don't know, since there are all these frictions with Beijing over the governing of Hong Kong and there's also uncertainty over MFN.

I find it interesting that some of the Hong Kong residents who emigrated over the past few years are now returning. That, I think, is the best indication of the degree of confidence in the transition. Though it's easy to mix hopes with expectations, I believe there's a good chance the transition will take place smoothly and assist the opening of China. Such opening seems to be proceeding very rapidly, anyway.

Q Do you think that Hong Kong will be able to maintain its position as the financial center of the region?

A I'm reasonably hopeful. It's hard to see Hong Kong being able to do quite everything it's doing now, but certainly the Chinese themselves are making an effort to develop their banking presence in the territory. Besides, Shanghai is many steps behind, Singapore is much smaller, and Japan is not as open or freewheeling. So, despite some obvious reservations people might have, Hong Kong really has a strong leg up.

Q Earlier this year you testified before Congress and urged the government to complete the Uruguay Round of the GATT. What's your assessment of the decisions reached at the G-7 summit in Japan?

A I'm not really close enough to judge. But the fact that the leaders

felt it was important to make a show of having some agreement is a hopeful sign. My impression is that there is a recognition that the Uruguay Round is something that really needs to be done, but no one is in a strong enough position domestically or otherwise to pull it off. Whether it will be successfully concluded remains unclear.

Q If an agreement is not reached, what are the implications for business?

A Well, nothing disappears; you have a status quo. In the technical sense the status quo isn't all that horrible. Trade is growing; the problems are psychological. There are protectionist pressures here and elsewhere, and I think failure to reach an agreement on the Uruguay Round might be perceived as a symbol of the weakness of the free-trade forces around the world. There's a lot of questioning about free trade now—partly because of China. People are wondering, does free trade work in a world in which you have a billion-and-a-quarter people coming onto the market all at once? I think yes, it ought to work all right. But people are going to need some reassurance on that score. So, if you don't have the GATT, and you have doubts about the free-trade framework and general protectionist pressures against a soft economy, then I think you have a dangerous situation. Not because anything mechanical happens, but because of psychological factors.

Q One of the main interests of the US financial community in the Uruguay Round is opening up Japan's financial markets. What about China? Is China attracting notice on Wall Street?

A Yes, though China is of greater interest to industry right now. But, as the clients of financial firms get interested in China, these firms will want to start providing their customers with services there. So the big houses are setting up offices in China and strengthening their presence in Hong Kong. But I think it's a bit premature to think of securities trading in China, per se.

Q What do you think of China's recent efforts to cool down its economy?

A Well, it sounds very similar to the situation in 1988, though they may have more difficulty now. I suspect that the Chinese are probably a little late in trying to slow things down. They've had a clear run of expansion, but they have a problem of sustainability, too. China is probably in for single-digit growth for a while, but I don't think this will impair its long-term potential.

> American businesspeople are much more excited about Asia than they are about Russia or Eastern Europe.

Q To what extent does the central government have the tools necessary to control growth and inflation?

A The conflict between powerful politicians and the desire to control inflation—which means less free credit to people with political clout—is strong. In 1988-89, the concern over inflation was great enough to overcome the political forces, particularly in the provinces, and I would think that's going to happen again.

I visited China at that time as part of a World Bank-funded mission. That was probably part of the reason we were there—to lend support to those who wanted to slow down money growth and inflation. I haven't followed things closely since then, however.

Q How important do you think China will be to the US economy in the future?

A I don't think it will be a major swing factor for the American economy or the world economy in the next five years. China could be an interesting factor, but not pivotal—it isn't yet big enough. In the long term, though, I think it will be very important.

Q What about the Pacific Rim as a whole?

A This is already a very dynamic area, and in the next 20 years, it's going to continue to be just as dynamic, if not more so. Even though Japan will not prove the expansionary force it has been for the last two decades, China will take over that role to an even greater degree.

Q What role will the US play in the region's growth?

A Well, US investment is on the decline everywhere. But China and Southeast Asia are much more welcoming places for foreign investment than Japan and Korea ever were. I think American businesspeople are much more excited about Asia than they are about Russia or Eastern Europe. Which brings us back to Hong Kong—Hong Kong is extremely well placed to take advantage of this interest.

Q President Clinton has invited the heads of Pacific Rim nations to Seattle to meet following the APEC (Asia-Pacific Economic Cooperation) gathering in November. What would you advise him to discuss at this meeting?

A I've said for years that I would like to see a Pacific Rim initiative of some sort, largely as a means of opening up Japan through multilateral, rather than bilateral, pressure. I have no opinion as to whether APEC is the right forum through which to achieve this goal, but it has the right members. I think Clinton's move is the right one—get together, get people talking about their collective interest in keeping their markets reasonably open, and begin to develop some rules for investment and dispute settlement. Maybe at this level we could make more progress on some of the difficult problems stymieing the Uruguay Round. I think this regional idea is worth exploring. Godspeed.

The Middle Kingdom Beckons

■ Todd G. Wynne-Parry

Coming off its best year yet, China's tourism industry has big plans ahead

After a series of setbacks in recent years, China's tourism industry seems to have weathered the worst and come up smiling. The tragedy at Tiananmen Square, the decline in travel during the Gulf War, and the global recession all hurt China's tourist trade. But by 1992, the situation had vastly improved; the number of foreign visitors that year was more than double the number in the "golden year" of 1988 (*see* chart).

On the upswing

In 1990, prospects seemed slim for a speedy recovery of the tourist industry after the violence surrounding the Tiananmen crackdown. Arrivals from Japan, Europe, and the United States—China's largest markets—were down sharply and facilities catering to foreign business travelers had far more rooms than guests (*see The CBR*, November-December 1990, p.12). The decline continued through 1991, partly in response to Tiananmen, but also due to the reluctance of vacationers and businesspeople to venture abroad while the Gulf War was being waged.

The savior of China's tourism industry at that time was Taiwan. Taiwan citizens, eager to take advantage of the relaxation of long-standing prohibitions on travel to the PRC, flocked to visit their homeland. By 1992, the number of Taiwan citizens traveling to the mainland was more than three times the number who traveled there in 1987. Arrivals from the former Soviet Union also skyrocketed post-1989. Following the break-up of the USSR and the end of travel restrictions for its citizens, the number of visitors from this area jumped from 110,000 in 1990 to 895,000 in 1992 (*see* graph).

Today, arrivals from Taiwan and the former Soviet states remain strong. Visits by residents of other Asian countries are also on the rise, particularly from the Association of South East Asian Nations (ASEAN)—Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. This jump is attributed to the burgeoning middle class in most of the ASEAN countries, as well as the economic success of ethnic Chinese throughout the region. The increases in foreign visitors to cities in Guangdong and Fujian provinces, in particular, suggest that many of these visitors are exploring their ancestral homes and/or foreign investment opportunities in South China (*see* p.52).

Happier hoteliers

The drop in visitor arrivals post-Tiananmen had a far-reaching impact on China's ambitious hotel expansion plans. Most affected were the cities of Beijing and Shanghai, where average hotel occupancy dipped to 45-55 percent in 1989-90, far below the 67-82 percent occupancy rates enjoyed in 1987-88 (*see The CBR*, November-December 1990, p.18).

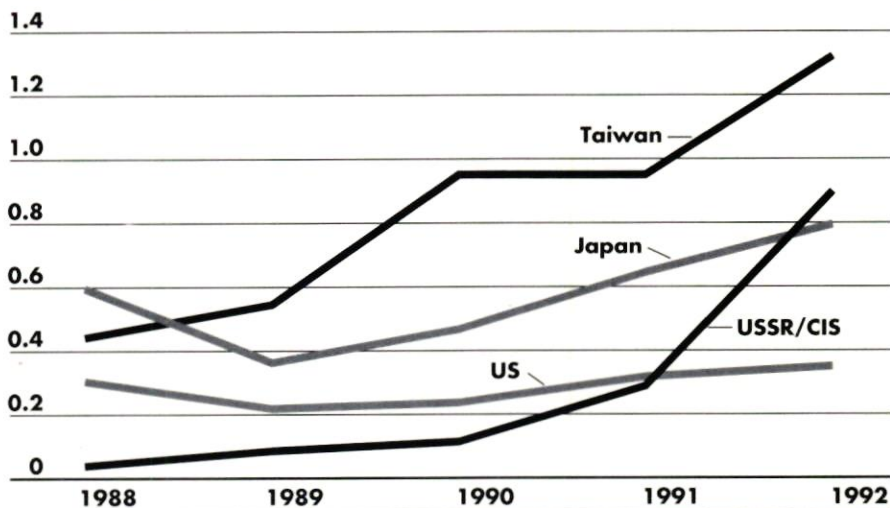
■ Todd G. Wynne-Parry is director of Horwath Asia Pacific-Hong Kong, a consulting firm for the tourism, hotel, and leisure industries in the Asia-Pacific region. The US-China Business Council contributed to the research and writing of this article.

Elsewhere in the country, average occupancy fell from over 65 percent prior to 1989 to 57 percent in 1990. Rooms could be had at bargain rates: a deluxe executive-floor room in 1990—including breakfast and free cocktail—cost between $45-60 per night, a far less expensive tab than that for equivalent accommodations in Hong Kong or other Asian cities. Many foreign-invested hotels were forced to reschedule loans, though few appear to have gone bankrupt.

The current tourism boom, coupled with restrictions on new hotel construction in several urban areas, is helping the hotel industry recover. Many properties are moving rapidly toward charging more standard international rates. In 1992, the average hotel occupancy rate in Beijing bounced back to 65 percent, while in Shanghai, a 27 percent increase in visitors over the previous year's tally helped boost occupancy levels.

Occupancy rates are expected to further increase across the board this year. Five-star hotels, which typically cater to Western and Japanese vacationers and business travelers, are projected to have occupancy levels of about 76 percent by the end of 1993, compared to a low of 41 percent in 1990. Four-star hotels, likewise, are estimated to achieve a 78 percent occupancy rate by the end of 1993, compared to 41 percent in 1990. Occupancy rates in three-star properties, which generally cater to Asian travelers, are expected to reach 82 percent this year, after climbing to 67 percent in 1992.

China's Major Tourism Markets



SOURCES: *Travel Business Analyst*, NTA

While many foreign investors and financiers remain leery of investing in hotels on the mainland because of the recent boom-bust cycle, a few joint-venture hotels have been approved in the past few months. These projects are located in Beijing as well as in less-frequented areas such as Nanjing, Hangzhou, Shenyang, and Harbin. Traditional tourism locales such as Guilin and Xian are still viewed by China's National Tourism Authority (NTA) as somewhat overbuilt.

Hoteliers in these areas are likely counting on NTA's efforts to boost tourism arrivals to improve their occupancy levels. Last year, NTA announced that 11 areas were to be developed as national "tourism zones" in which foreign investors could develop resorts and other leisure facilities (*see* box). These areas, which range from small islands to whole provinces, are: Dianchi Lake in Yunnan Province, Hengsha Island in Shanghai Municipality, Jinshitan in Dalian Municipality, Meizhou Island and Wuyi Mountain in Fujian Province, Lake Nan in Guangzhou Municipality, Shilaoren in Qingdao Municipality, Lake Tai in Jiangsu Province, Yalong Bay in Hainan Province, Yintan in Guangxi Province, and Zhijiang in Hangzhou Municipality. NTA recently split the Lake Tai zone into two areas centered around Wuxi and Suzhou, bringing the official tally of zones to 12.

Foreign Tourist Arrivals in China*

* does not include overseas Chinese or Hong Kong, Taiwan, and Macao "compatriots"
SOURCES: NTA, Ministry of Public Security

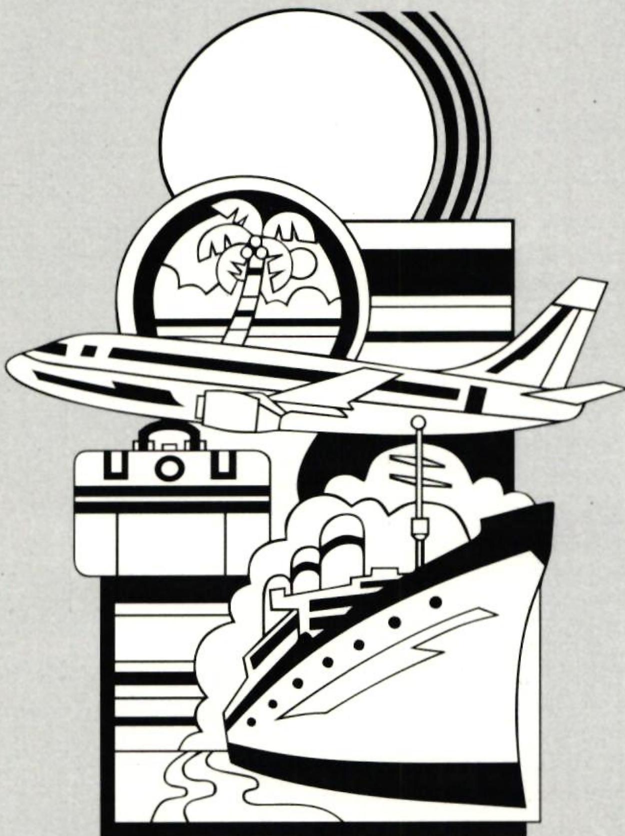
Charting the future

The future of China's tourism industry is promising, provided basic infrastructure is improved. According to the World Tourism Organization, China could become one of the world's top tourist destinations by the year 2010. To reach this goal, however, China has its work cut out. The country must improve air transportation in particular. Beach destinations in South China will need modern facilities

Constructing a Paradise

Could China possess the Bali of the future? Some Chinese tourism officials seem to think so. Concerned that visitors looking for relaxation are opting for developed luxury destinations such as Phuket and Penang, China's National Tourism Administration (NTA) has designated a dozen special "tourism zones" for development into world-class vacation resorts. According to NTA officials in Beijing, the goal of the zones is to enable China to attain a balance between sightseeing- and leisure-oriented tourism.

China's new zones are located mainly along the coast or in lake areas in the coastal provinces. Most are in areas that already possess a tourism base, so basic infrastructure such as roads and airports is likely to be in place—or at least under construction. Each resort is to feature its own, unique draw: Shilaoren in Qingdao, for example, will offer beer halls while Meizhou Island's facilities will provide easy access to the temple of the sea goddess Mazu—a favorite tourist destination for Taiwan visitors.



Thus far, $5.5 billion has reportedly been pledged by overseas investors to develop the zones, which are not targeted by any of the recent clampdowns on unapproved economic development zones. Foreign interest to date has been strongest in Meizhou and Hainan, where Hong Kong, Taiwan, and Southeast Asian developers are building recreational facilities and resorts aimed at Asian visitors. According to NTA, foreign-invested enterprises in the zones are entitled to a number of benefits:

- An income tax rate of 24 percent
- Tax holidays for the first 2 years of operation for productive foreign-invested enterprises with business terms of at least 10 years; years 3-5 will be taxed at 50 percent
- Exemption from import duties, CICT, and product taxes for imported materials and equipment for the foreign enterprise's operations and staff. Imported raw materials and parts for export-oriented products will be handled as bonded goods.

Unlike other areas in China, the zones will be permitted to approve foreign joint-venture travel agencies and taxi businesses, as well as other non-manufacturing tourism-related enterprises. Approvals for joint ventures will likely depend on the number of foreign clients to be served, as well as on the amount of foreign exchange expected to be generated. While the draft regulations governing these activities have yet to be promulgated, NTA officials note that each foreign travel firm likely will be permitted to offer services in just one tourism zone, though such firms may link up with existing Chinese tour operators to assist foreign customers traveling elsewhere in China. Foreign joint-venture travel agencies will be permitted to provide services for domestic vacationers as well, but again, only for those visiting the resort in which the firm has its office.

Dream or reality?

At this point, it is too early to tell just how successful NTA's tourism zones will be. Each of the 10-12 sq km zones reportedly will feature hotels, villas, golf courses, and other leisure facilities. All the resorts, however, are still in the planning stages, and no hotels have yet been approved. The zones that seem to be moving fastest include the two Lake Tai resorts, where the main access road has been completed; and Hangzhou's Zhijiang Tourist Zone, where villas are under construction. It could be at least five years before the first comprehensive resort is complete, though some facilities will probably be open for business within the next few years.

NTA is counting on its Asian neighbors to provide much of the investment capital for the zones, as well as the tourists who will frequent them. Wealthy travelers from Japan, Hong Kong, Taiwan, and Southeast Asia in particular will be targeted by the zones' developers. High-level foreign managers in China are also prospective customers. Though resorts in the zones will focus on generating foreign exchange, NTA officials say the country's growing number of *renminbi* millionaires could be another potential market.

If the tourism zone concept proves successful, other areas will likely be developed as well, if only because Beijing will find it difficult to control provincial and local officials wanting to build their own resorts. In such cases, Beijing may seek to incorporate locally planned tourism resorts into the national plan, with NTA approving the facilities to be built and architectural styles to be adopted. Once NTA gives the green light, specific construction projects will be approved according to the normal guidelines of the State Planning Commission and other approval authorities.

—VLW

THE CEO INSTITUTES

UPCOMING EVENTS

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The Pan American CEO Institute Emerging Markets Forum
October 5-7, 1993
São Paulo, Brazil

Less than a year after Brazil's political crisis, the Pan-American CEO Institute will gather business and government leaders from around the Americas for its second Emerging Markets Forum. The forum will explore the economic opportunities of the region's largest economy and of its neighbors in the Southern Cone. Sponsors: Banco Real, Bolsa de Valores de São Paulo (BOVESPA), Continental Bank International, Origin C&P, Shearman & Sterling, Sprint International, and West Merchant Bank Limited.

The Pacific CEO Institute Emerging Markets Forum
October 18-20, 1993
Shanghai, China

The first Pacific CEO Institute Emerging Markets Forum will explore the rapidly changing political and economic environment in China. The program will look in depth at the specifics of China's renewed commitment to building a vital and evolving socialist market economy, and give participants access to a wide array of senior officials, experts and top managers from the region. Sponsors: AIG Trading, Braxton Associates, Deloitte Touche Tohmatsu International, and Hongkong Telecom.

The Pacific CEO Institute Roundtable
November 15-17, 1993
Seattle, Washington

The sixth annual Pacific CEO Institute Roundtable will gather Asian and U.S. leaders in business and government to discuss the next wave in growth in Asia and the Pacific. From China and India to Vietnam and Indonesia, this roundtable will examine the dynamic changes in the region and strategies for seizing the opportunities presented by those changes.

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The Pan-African CEO Institute Roundtable
November 17-19, 1993
Cape Town, South Africa

The CEO Institutes will bring a major mission of U.S. and European corporate leaders to South Africa for an in-depth assessment of the investment environment once sanctions are lifted. Timed to occur shortly before South Africa's first nonracial elections, the Roundtable will also examine prospects for cooperation and trade in the greater Southern Africa region. Sponsors: African Business Round Table, AIG Trading Corporation, ESKOM, South African Airways, Standard Bank/Standard Merchant Bank, and Telkom S.A.

The CEO Institutes Technology Retreats
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and convenient air connections to compete with Vietnam, Thailand, and the Philippines for quick-break travel from the major population centers of Hong Kong, Taipei, and Singapore. Development of airports and air links is also crucial if China is to market itself as an appealing destination for incentive travel and conferences.

China's tourism industry will continue to rely on foreign investment to upgrade facilities and build new resorts, though domestic funding can be expected to increase at a pace equal to the economic growth of the local municipalities. Long-term success will be closely linked to the industry's ability to develop new products for the high-growth Asian market. Hong Kong-based hotel management companies have already noted this factor and are now concentrating much of their China efforts on developing three-star accommodations for tour groups and middle-income individuals from both neighboring countries and the West.

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Par for the Course

If Zhu Rongji has his way, China's "green fever" may be heading for more temperate zones. Zhu's recently announced restrictions on real estate and land use will clearly put a damper on some golf course development plans. In South China alone, more than 10 golf courses are in various stages of development. Those likely to be least affected by the real-estate crackdown are joint-venture projects already under construction which plan to target foreigners.

Lotus Hill Golf Resorts, Ltd., a 110 ha development in Panyu, a southern suburb of Guangzhou, is one of these courses. According to Eric Chan, a director of the facility, Lotus Hill will feature an 18-hole golf course, a clubhouse complete with an 80-room hotel, a business center, lodges, and recreational facilities, including a pool and tennis courts. The ¥250 million project is a 65-35 percent joint venture between Donson International Development (a Hong Kong-Taiwan joint venture) and the Panyu Tourism Main Office. All project funding comes from the foreign partner, which should help the project ride out the economic slowdown.

Photo courtesy of Dan Reardon

Hong Kong National Champion Yao Suiming, Lotus Hill's resident pro, shows his winning form.

Some 300 of a total 1,000 memberships have already been sold at pre-opening rates of $30,000 for individuals and $33,000 for corporations. The first nine holes are scheduled to open in December, with the back nine to open next June. Lodges with units ranging from 1,800-2,300 sq ft are to be completed by July 1994.

At present, the resort is primarily targeting young Hong Kong executives. Though out of reach for most Chinese citizens—less than 15 percent of the memberships thus far have been purchased by mainland Chinese—memberships at Lotus Hill are a bargain compared to those at Hong Kong golf clubs, where members pay anywhere from $180,000-$700,000.

Lotus Hill's low prices may pay off. For Hong Kong residents, Guangdong golf resorts offer an easy and cheap alternative to other leisure destinations, as transportation by either road or ferry is quick and convenient. Moreover, Hong Kong executives who spend a fair amount of time conducting business in South China may find a round of golf an appealing way to relax after business meetings and factory visits.

As an added lure, membership at Lotus Hill also provides reciprocal playing rights at other courses in Asia managed by the same company, Thailand's Green Valley Group. During the construction phase, memberships may be purchased in *renminbi*, in contrast to the foreign exchange payment requirements at most Chinese clubs. With golf memberships at some Chinese courses appreciating, golfing aficionados may find a way to improve their swing—and their investment portfolios.

—Dan Reardon

Dan Reardon, The CBR's *Hong Kong-based business manager, recently visited Lotus Hill Golf Resorts Ltd.*

Prospects for development of domestic tourism in China are also good. As per capita income increases, particularly among urban dwellers, China's own tourists will clearly have more money to spend on vacations and other tourism-related products. NTA estimates that nearly one-third of China's population went on vacation last year, spending ¥25 billion ($4.37 billion) at tourist sites around the country.

NTA's goal for annual international tourism receipts is $5.1 billion by 1995, and $11 billion by the turn of the century. In order to meet these targets, however, China can no longer count on its image as a mysterious, previously off-limits destination to attract foreigners. Instead, it must vie for visitors by providing the quality service and facilities that travelers enjoy in competing destinations such as Thailand. If China can accomplish this feat in the near future, it might discover that every year is a record-breaker. 完

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The China Tourism Triangle

■ **Vera Lung Siu-Yin**

The growing links among China, Taiwan, and Hong Kong have a wide range of implications for businesses around the region (*see The CBR*, May-June 1991, p.13). As Hong Kong's return to Chinese sovereignty approaches and the re-establishment of direct air links between Taiwan and the mainland appears imminent, many tourism analysts are predicting greater tourism flows within the Greater China triangle.

Hong Kong at the center

Hong Kong, long an entrepot for goods entering and leaving China, has been the chief beneficiary of increased travel within Greater China. Since 1987, when the Taiwan government relaxed its prohibition on visits to the mainland, thousands of Taiwan residents have flocked to China, usually via Hong Kong. In recent years, Taiwan has been the territory's largest source of tourists and tourism revenue. In 1992, Hong Kong recorded 1.6 million arrivals from Taiwan, a 26 percent jump over the previous year. Taiwan tourists accounted for 24 percent of total visitors to Hong Kong last year, and a quarter of total tourist spending in the territory.

The number of Hong Kong visitors to Taiwan, in contrast, has dropped by over 60 percent in recent years. The drop is due in part to Taiwan's lack of historic attractions compared to the mainland, but also likely stems from Taiwan's complicated visa application procedures and high food and lodging expenses.

Since May, when Beijing and Taipei began talks on developing direct air links between China and Taiwan, Hong Kong interests have expressed concern that the territory will be the loser if the two sides reach an agreement. Complicated political factors make it difficult to predict when this will happen, though many observers believe direct flights could occur in the near future. Other analysts, however, predict that direct links won't commence until 1997, when Hong Kong reverts to Chinese rule. As they see it, Taiwan planes landing in Hong Kong will mark the de facto first flights between Taiwan and the mainland.

Until direct Taiwan-PRC routes open up, Hong Kong's role in Taiwan-China travel should be fairly strong. Once direct travel is possible, however, the number of Taiwan visitors to Hong Kong will probably drop, since Taiwan visitors will no longer have to enter China through an intermediary point. Nevertheless, the travel industry in Hong Kong remains optimistic about Taiwan arrivals, claiming that even with direct air links, a large number of mainland-bound Taiwan travelers will continue to frequent Hong Kong to go shopping.

Moreover, Hong Kong tourism analysts believe the growing integration among the Hong Kong, Macao, and Pearl River Delta tourism industries will help maintain Taiwan arrivals to Hong Kong. Services that encompass these areas are on the rise, as evidenced in the joint efforts of the Hong Kong, Guangdong, and Macao tourist boards to create itineraries covering all three destinations. The tourist boards began to work together officially in July and are expected to embark upon joint marketing activities aimed at overseas visitors next spring.

The potential of China

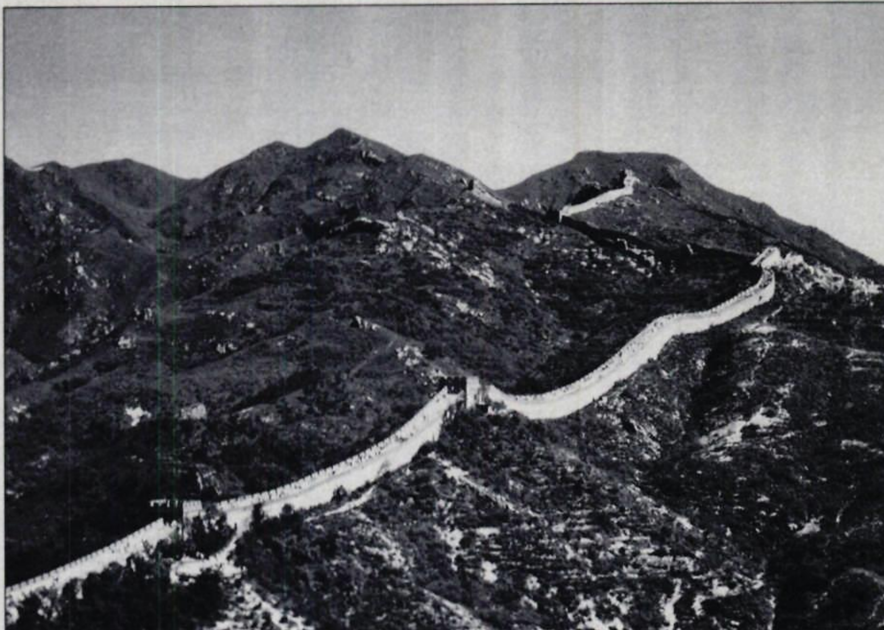
If Taiwan visitors choose to bypass the Hong Kong-Macao-Pearl Delta attractions, Hong Kong still has another card—or market—up its sleeve: China. In May alone, over 167,000 visitors from China came to Hong Kong, an astonishing 91.6 percent leap over the number arriving during the same period last year. A relaxation of Chinese travel restrictions and an increase in entry quotas granted by Hong Kong immigration officials are the likely reasons for this surge.

The number of mainlanders visiting Hong Kong is expected to rise even more sharply in the next few months, as a new

Hong Kong is counting on the allure of its shops and its convenient location to keep tourism arrivals high. *Photo courtesy of Hong Kong Tourist Association*

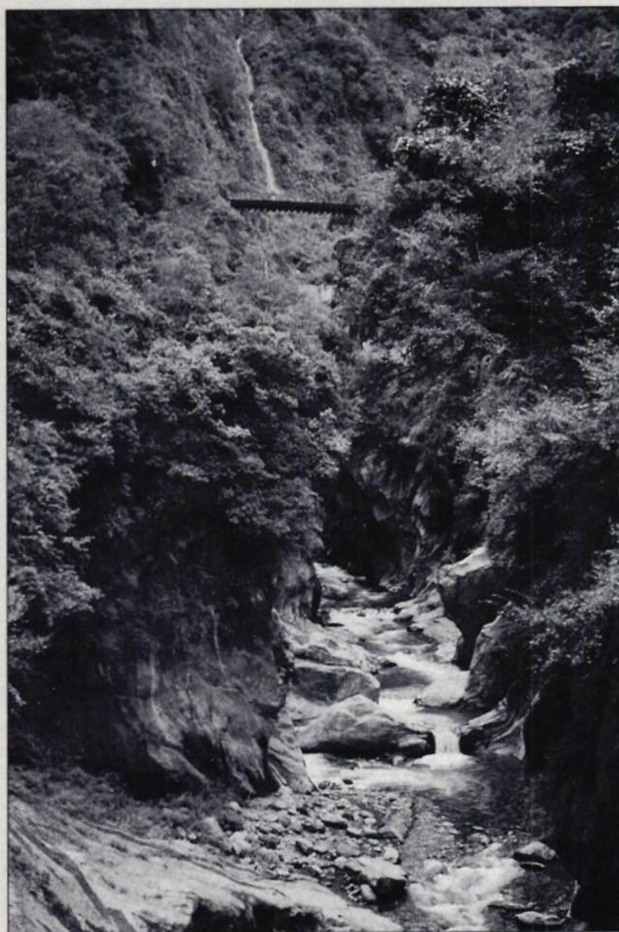
regulation that permits Chinese on their way to or from other countries to stop off in Hong Kong for up to a week without a visa became effective on August 1.

Hong Kong is not the only location catching the eye of Chinese travelers. China, with 3 million out-bound travelers in 1992, constituted the world's third-largest source of Asian travelers last year, trailing only Japan and Taiwan. In the past, the Chinese government granted passports only to citizens traveling abroad to study, conduct business, or visit relatives. Now, Beijing is easing travel restrictions and allowing more Chinese travel agencies to lead tour groups abroad. Hong Kong and Taiwan, along with other Asian countries, clearly stand to profit from this liberalization. In Guangdong Province alone, more than 100,000 people have applied for visas to visit Hong Kong.



China's unique tourist attractions will continue to lure visitors both from within and outside of Greater China.

Despite the increase in outbound PRC travelers, overseas travel is still rare for Chinese, and many of those who have been abroad have to wait at least two years before obtaining another exit visa. But those who are able to travel generally spend money on presents for themselves and their relatives, making Chinese travelers a growing source of tourism revenue. The devaluation of the *renminbi* actually seems to be increasing Chinese spending on jewelry and other expensive items abroad, as anxious PRC citizens seek to hedge against inflation at home.



Taiwan's spectacular Taroko Gorge is a top domestic tourist draw. *Photo courtesy of Pamela Baldinger*

Down the road

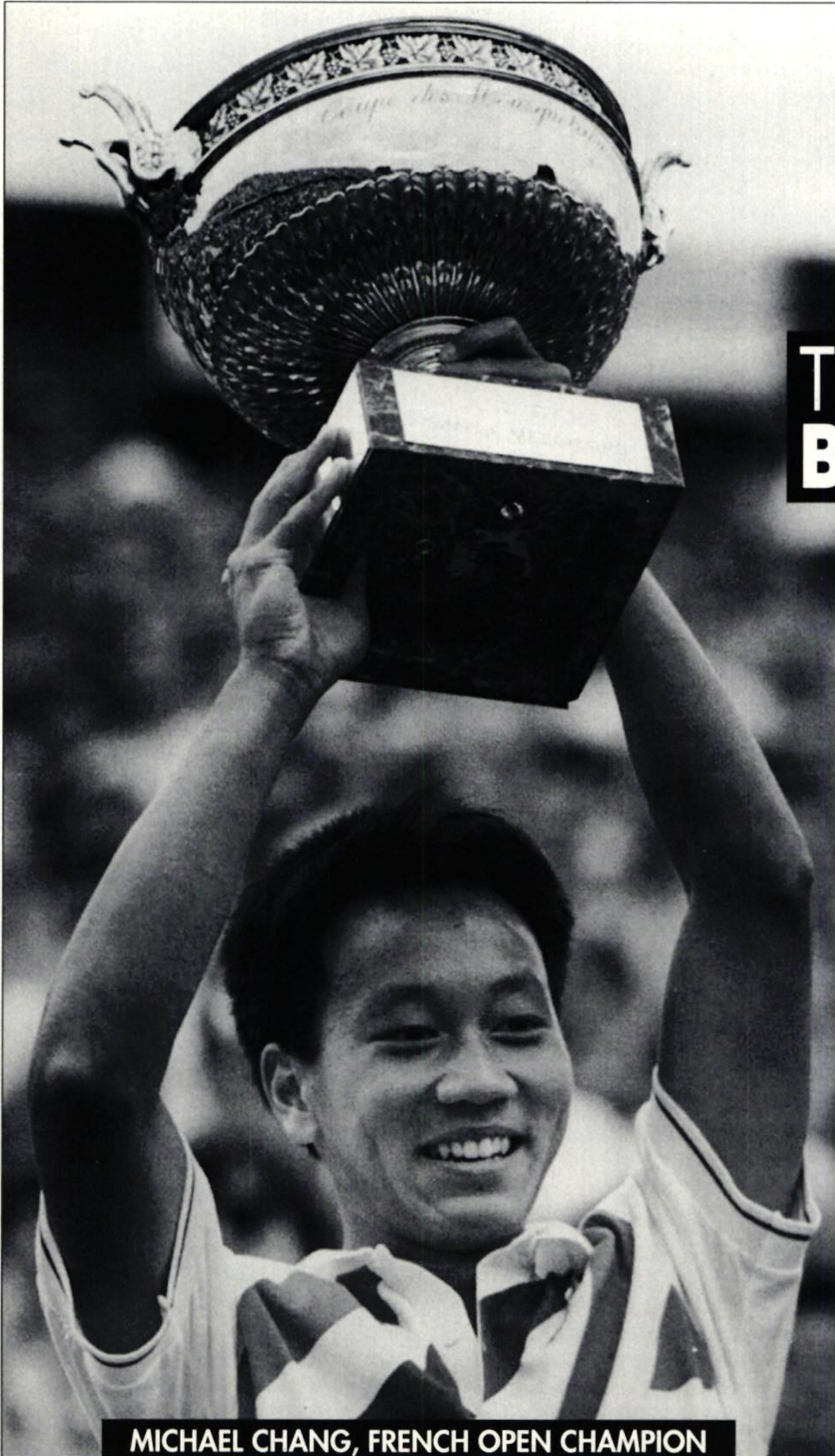
When Hong Kong becomes a special administrative zone of China in 1997 and direct travel between China and Taiwan becomes a reality, all apparent barriers to the formation of a Greater China tourism empire will be lifted.

Hong Kong will continue to serve as the region's travel hub, but all three points of the triangle are sure to profit because of their strong cultural and business ties. The number of Taiwan visitors to China will probably increase steadily. Mainland visitors to Taiwan, similarly, will increase as Chinese seek out their relatives on the island, though the Taiwan government may restrict access to stave off illegal immigration. Such controls, coupled with Taiwan's high prices, suggest that the flow of Taiwan visitors toward China will be much heavier than that of mainlanders visiting the island.

At the same time, a growing number of tourists from outside the triangle will bring increased profits to all three areas. At present, the largest source of visitors to Greater China is Japan, followed by travelers from other Asian countries. Steady and rapid increases in the growth of tourists from the region can be expected. Once travel logistics become smoother, the number of tourists visiting from outside Asia is also expected to increase, providing good prospects for airlines, travel agents, and hotels serving travelers to and within the Greater China triangle.

Vera Lung Siu-yin is the editor of The Voice of TIC, *the official publication of the Travel Industry Council of Hong Kong.*

WINNERS



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An All-Out Effort

■ Steve Drake

China's tourism officials are waging an aggressive marketing campaign to attract US travelers

■ Steve Drake, vice president of Fleishman-Hillard, Inc.'s Washington office, has coordinated the firm's work in China for the past two years. He plans to relocate to Beijing to open a Fleishman-Hillard office there.

Until recently, promotion of China's tourist sites was almost non-existent in the United States. Chinese travel companies would participate in a few national and international travel shows, while Beijing maintained two poorly funded and understaffed tourist offices in New York and Los Angeles. US tour operators specializing in travel to Asia, in fact, did more to promote China than did the Chinese government itself. In the past year, however, with travel industry competition heating up inside and outside of the PRC, China has signaled it is serious about attracting new waves of US vacationers and business travelers.

Be China... and they'll come

The complacency of China's tourism industry in the 1980s was hardly surprising, since the allure of a society and sites previously off-limits was more than enough to attract thousands of foreign tourists. Business travelers needed no prodding either, as foreign companies eager to investigate opportunities in the world's most populous nation found ample reason to make exploratory visits to China. The country's main tourist authorities—the National Tourism Administration (NTA), which oversees development of the industry, and the China International Travel Service (CITS), the largest tour organizer for foreign visitors—figured they needed to do little, if anything, to promote China as a destination for leisure and business travelers.

And they were right. From the time China's doors opened to the outside world in 1979 until the Tiananmen incident in mid-1989, tourism officials gleefully counted the hard currency earned as thousands of foreign visitors, including record numbers of Americans, flocked to the traditional tourist cities of Beijing, Shanghai, Xian, Guilin, Guangzhou, and other destinations (*see* p 46).

While China used its tourism earnings to build hotels and airports, buy new aircraft, and open new tourist sites around the country, other Asian locales—Japan, Hong Kong, Thailand, and Singapore, to name a few—spent millions of dollars on slick promotional programs, advertising campaigns, and government-sponsored trips to familiarize travel agents with the facilities and sites in each location. Chinese tourism marketing efforts, in contrast, consisted largely of cultivating the dozen or so large tour operators that generated the bulk of US tour group travel to the PRC. These companies still constitute a loyal sales force, marketing mostly organized and incentive tours to retail travel agencies, alumni organizations, student and study groups, and corporate clients.

Shifting winds

China's promotional strategy began to change following the events of June

1989. World-wide shock at the events on Tiananmen Square and international condemnation of the government-sanctioned violence led to a dramatic fall in the number of tourists to China in the period immediately following the unrest. Hotels which had occupancy rates nearing 100 percent just months earlier were forced to cut rates severely to attract the few visitors that came. Many US tour operators, similarly hard hit, slashed prices or even eliminated China from their itineraries (*see The CBR*, September-October 1989, p.42).

Shaken out of their complacency, NTA, CITS, and other tourism organizations began to look for ways to speed the industry's recovery. Early efforts focused on cutting prices and improving the products China had to offer. For instance, CITS and NTA implemented major campaigns to improve service levels throughout the industry, setting up tourist complaint hotlines and honoring employees with good service records. At the same time, major Chinese tour companies became more flexible about the packages they would put together, offering more varied group itineraries and foreign independent traveler (FIT) products.

Perhaps more significantly, China's tourism officials worked hard at increasing their marketing savvy. The recent introduction and promotion of special-interest tours (ranging from a "food-lover's tour" to one that follows the footsteps of Pearl Buck); the development of special services such as charter flights for business executives; and the active marketing of incentive programs, conferences, and exhibits all indicate that China's tourism leaders are responding to the changing needs of US leisure and business travelers.

The greatest change since Tiananmen, however, is that China's tourism officials now recognize that they need outside assistance to make China a competitive destination. NTA's March announcement that China had joined the Pacific Asian Travel Association (PATA), the premier Asian tourism industry group, was hailed by US tour operators and travel agencies as a breakthrough, for it marked the most public sign to date of the desire of China's tourism industry to seek a more prominent position in world-wide travel. Participation in PATA should enhance China's marketing clout and open the industry further to development and promotion by outside interests. China's attendance at PATA conferences and meetings will also enable foreign vendors to become more familiar with the country's tourism products and to negotiate new deals more easily.

> China's tourism officials now recognize that they need outside assistance to make China a competitive destination.

Most important, China's tourism officials have taken the step of hiring an outside agency to promote China as a tourism destination. In an unprecedented move, NTA in late 1991 retained Fleishman-Hillard, Inc. to develop a US public relations and marketing program for China tourism. The arrangement led to a five-city US tour by a high-level Chinese tourism delegation in the summer of 1992. Headed by NTA Chairman Liu Yi and including top executives from each of China's three largest travel companies—CITS, China Travel Service (CTS), and China Youth Travel Service (CYTS)—the delegation sought to communicate China's commitment to the US travel market and to spawn discussions between the Chinese companies and the largest US tour operators. The delegation met with top-level executives from American Express, Carlson Travel, Rosenbluth, US Travel, Omega World Travel, and other leading travel retailers. For the Chinese, the discussions led to a deeper understanding of US travel company concerns; the US firms, meanwhile, gained a more up-to-date view of China's tourism infrastructure. Business deals and promotions are now being discussed as a result of the trip.

Following the success of that visit, CITS—which recently changed its name to CITS National (*see* box)—hired Fleishman-Hillard to develop a more focused business-to-business marketing communications program. Fleishman-Hillard now serves as a sort of broker between CITS National and US travel companies, writing updates on the Chinese organization's developments for distribution to the US travel industry, making presentations to travel agents, and organizing trips to China for US travel executives. As *The CBR* goes to press, a group of senior US travel executives is touring Beijing, Xian, and Shanghai, compliments of CITS National.

A New Face

In order to distinguish itself more clearly from its former branches and other competitors, the head office of the China International Travel Service (CITS) recently retained Herman Associates Public Relations, a New York marketing communications firm, to develop a new CITS logo and tagline. The result, "CITS National: China's Host to the World," is designed to reflect the Chinese company's nationwide scope and promote its extensive range of travel services.

Full speed ahead?

This surge in tourism marketing activity should mean new opportunities in

China for the US travel industry, as well as for joint-venture hotels there. In the past few years, China's tourism authorities and companies have effectively communicated their desire for more US visitors through increased promotional and public relations efforts. On an individual basis, Chinese travel agencies have proved to be aggressive competitors, searching for even the smallest opening in the US market. Our research has revealed that numerous US travel agencies of all sizes have been contacted recently by many different Chinese travel companies. US companies and visitors are responding to these efforts; 1993 should see more US visitors to China than has any previous year.

1993 should see more US visitors to China than has any previous year.

This does not mean there is no room for improvement. China still lacks a cohesive, nationwide tourism marketing plan. Indeed, a comprehensive destination-promotion media campaign such as those offered by Mexico and Bermuda, for example, would probably greatly increase the number of US vacationers, tour groups, and business visitors to China. China could also benefit from the development of cross-promotion programs with US airlines, as well as from efforts to educate a larger audience about China's special-interest tours. As long as the number of tourist arrivals and the degree of competition among Chinese tourism entities continue to increase, however, the funding and implementation of such an integrated program is unlikely, since each company is intent on promoting its own activities.

That said, China's current decentralized and market-driven approach to tourism promotion is delivering tangible results, and the future of the industry is bright. China's interaction with US travel providers, as well as US travel to China, is on the rise. For China, this growth translates into higher inflows of hard currency, increased exposure to Western visitors and ideas, and greater foreign investment in its travel infrastructure. For US business, the growing ties help secure a stronger foothold in a highly visible, high-growth industry. If China's tourism interests continue to build on the marketing effort initiated in 1989, China—and US business—should reap benefits for years to come. 完

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■ Colin Thomas

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SALES AND INVESTMENT THROUGH July 15, 1993
Foreign party/Chinese party **Arrangement, value, and date reported**

Agricultural Commodities and Technology

CHINA'S IMPORTS

Thailand/NA
Will sell 32,500 tons of rubber to China. $24 million. 5/93.

OTHER

Papua New Guinea/China
Signed agreement to share technological developments on various agricultural topics. 7/93.

Banking and Finance

INVESTMENTS IN CHINA

S.G. Warburg & Co. Ltd. (UK)/PBOC
Will establish a joint venture to develop China's securities markets. 5/93.

CHINA'S INVESTMENTS ABROAD

BOC/Central Bank of Russia (CIS)
Received banking license to deal in foreign currency and ruble operations and to service Russian customers. 6/93.

CITIC Pacific/Chase Manhattan Co. (US)
Bought a 20% stake in the bank's credit-card operations in Hong Kong. $25 million. 6/93.

OTHER

Banco Santander (Spain)
Will open a representative office in Beijing. 7/93.

Bank of America (US)
Opened a branch office in Guangdong. 7/93.

Banque Nationale de Paris (France)
Opened a branch office in Tianjin. 6/93.

The Dresdner Bank (Germany)
Opened a branch office in Shanghai. 6/93.

Tat Lee Commercial Bank (Singapore)/People's Construction Bank of China
Will provide loan. $10 million. 6/93.

Commercial Bank of Korea (South Korea)
Opened a representative office in Shanghai. 5/93.

Chemicals, Petrochemicals, and Related Equipment

CHINA'S IMPORTS

Urethane Technologies Inc. (US)/Wei Hei Yicklong Industrial Development Co.
Will sell chemicals to produce airless foam-filled bicycle tires. 7/93.

NA (US)/Tianjin Carbon Black Plant
Will sell carbon-black technology. $8.8 million. 6/93.

Samsung Group (South Korea)/CNCCC, Jilin Chemical Industrial Group.
Will supply equipment for an ethylene glycol plant. $40 million. 5/93.

INVESTMENTS IN CHINA

Itochu Corp. (Japan)/SINOPEC
Will form a joint venture to produce resins and wrapping materials. (Japan:49%-PRC:51%). 6/93.

Mitsubishi Corp. (Japan), NA (Taiwan)/NA
Will form Ningbo Jinhailing Tank Terminal Co. to operate seven petrochemical storage tanks. $4.6 million. (Japan:25%,TW:5%-PRC:70%). 6/93.

Transfield Construction Pty. (Australia), Toyo Engineering Corp., Marubeni Corp. (Japan)/NA
Will build an ammonia feedstock plant in Lanzhou, Gansu Province. $144.3 million. 6/93.

Rohm and Haas Co. (US)/Beijing Eastern Chemical Plant
Will jointly manufacture and market high-grade acrylic and acid polymers. $16 million. 5/93.

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.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNOOC: China National Offshore Oil Corp.; ETDZ: Economic and Technological Development Zone; ICBC: Industrial and Commercial Bank of China; MPT: Ministry of Posts and Telecommunications; NA: Not Available; NORINCO: China North Industries Corp.; P&T: Post and Telecommunications; PBOC: People's Bank of China; SEZ: Special Economic Zone; SINOCHEM: China National Chemicals Import-Export Corp.; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; SPC: State Planning Commission; UNDP: United Nations Development Program.

OTHER

Export-Import Bank of South Korea/BOC
Will give loan to an ethylene plant in Jilin Province. $140 million. 5/93.

Consumer Goods

INVESTMENTS IN CHINA

Dairy Farm International Holdings Ltd., subsidiary of Jardine Strategic Holdings, Ltd. (HK)/Shanghai Textile Raw Materials Corp.
Will form Shanghai Wellcome Co. to build 60 supermarkets in Shanghai over the next five years. $25 million. 6/93.

Itochu Corp. (Japan)/ChinaPack
Will form joint venture to produce wrapping materials, home appliances, textiles, and food. 6/93.

Jetta Co. Ltd. (HK)/NA (Guangzhou)
Formed Jetta Haizhu Co. Ltd. to produce toys primarily for export. 6/93.

Kuzbassradio (CIS), Kong Wah Holdings Ltd. (HK)/Heilongjiang International Project and Technical Cooperation Corp.
Will form joint venture to produce color televisions and stereo units. $30 million. 6/93.

Redken Laboratories (US)/Beijing Liyuan Cosmetics Co.
Will form Redken-Liyuan Cosmetics Co. to produce Chinese fragrances and cosmetics. $2.9 million. 5/93.

Victor Co. of Japan Ltd. (Japan)/NA (Beijing, Guangzhou)
Will form two joint ventures to produce 150,000 camcorders by 1995. (Japan:40%-PRC:60%) 5/93.

Electronics and Computer Software

INVESTMENTS IN CHINA

Compaq Computer Corp. (US)/Beijing Stone Group Corp.
Will form joint venture to manufacture computers in China. 7/93.

Elec & Eltek Holdings Co. Ltd. (HK)/Guangzhou Mass Transit Authority
Formed the Kai Ping Elec & Eltek Co. to develop printed circuit boards. $38 million. 6/93.

NA (Hong Kong)/NA (Shantou)
Formed the Yujian Electronics Science and Technology Development Co. to manufacture 240,000 high-resolution color computer monitors per year. $7 million. 6/93.

Lattice Semiconductor Corp. (US)/NA
Will form Lattice Shanghai to develop high-density integrated circuits and computer-aided engineering tools. 6/93.

Diebold Inc. (US)/Shanghai Far East Aerotechnology Import-Export Corp., ICBC (Pudong)
Will form China Diebold Financial Equipment Co. Ltd. to produce, install, and service ATMs. (US:65%-PRC:35%). 5/93.

OTHER

AST Research Inc. (US)
Opened office in Shanghai. 7/93.

Engineering and Construction

CHINA'S IMPORTS

Smith Co. (Denmark)/CNTIC
Will supply cement production line to factory in Tongling, Anhui Province. $40 million. 6/93.

INVESTMENTS IN CHINA

Ebasco Services (US)/China Electric Power Design Institute (Pudong)
Established Shanghai Ebasco Ecepdi Engineering Corp. to provide engineering services in China. 5/93.

Mitsubishi Raw Materials Co., Mitsubishi Corp. (Japan)/China Raw Materials Co.
Will build and operate cement plant for 33-year term. $116 million. 5/93.

OTHER

International Finance Corp. (World Bank Group)/NA (Beijing)
Will provide loans and investment capital for a cement factory. $28.7 million. 6/93.

Environmental Technology and Equipment

OTHER

Japan/China
Will give grant for environmental protection and agricultural projects. $46.26 million. 6/93.

World Bank/National Environmental Protection Agency, Chinese Academy of Sciences
Will supply credit for environmental planning, demonstration projects, and environmental monitoring. $50 million. 6/93.

Food and Food Processing

INVESTMENTS IN CHINA

Noble China Corp. (Canada)/Zhaoqing City (Guangdong)
Purchased 60 percent interest in Pabst Blue Ribbon Brewery Zhaoqing Ltd. $38 million. 7/93.

Asiatic Development Ltd. (Malaysia)/Zhong Yue Xin Sha Gang Oils and Fat Storage and Transportation Corp. (Dongguan, Guangdong)
Formed joint venture to establish a palm oil bulking installation, an oil blending plant, and a margarine production facility. $20 million. 6/93.

A.S. Watson (HK)/Shanghai Yimin No.1 Food Factory
Will form Shanghai A.S. Watson Yimin Food to manufacture ice cream, chocolate, candy, fruit juice, and canned food in Pudong. (HK:51%-PRC:49%). $18 million. 6/93.

CPC International Inc. (US)/Yuexing Enterprise Group Co. (Guangzhou)
Will form CPC (Guangzhou) Food Products Ltd. to manufacture Knorr bouillon cubes. (US:80%-PRC:20%). 6/93.

Dr. Pepper Holding Co., Pepsico Inc. (US)/China Air Force
Will form joint venture to manufacture soft-drink syrups in Guangzhou. 6/93.

Foster's Brewing Group Ltd. (Australia)/Huaguang Brewery (Shanghai)
Will create joint venture to modernize factory in Shanghai and build a new facility in Pudong. $21 million. (Australia:60%-PRC:40%). 5/93.

Foster's Brewing Group Ltd. (Australia)/Princess Brewery (Doumen, Guangdong)
Will form Guangdong Foster's Brewery Ltd. 5/93.

Kraft General Foods International, a subsidiary of Phillip Morris Co. (US)/Beijing Agriculture Industry & Commerce General Corp.
Will form Beijing Kraft Food Corp. to manufacture and market dairy products. 6/93.

Minnesota Brewing Co. (US)/China Henan Gold Star Beer Factory (Zhengzhou)
Will establish US-Minnesota Henan Brewing Co. to produce and sell Landmark beer. (US:25%-PRC:75%). 6/93.

Machinery and Machine Tools

INVESTMENTS IN CHINA

Siu-Fung Holdings Co. (HK)/Scientific Research Institute for Building Materials (Beijing)
Formed joint venture to produce high-quality grinding balls for use in the ceramic industry. $100 million. (HK:50%-PRC:50%). 7/93.

Terex Corp. (US)/Linyi Construction Machinery Corp. (Shandong)
Will form joint venture to produce wheeled-loaders and articulated haulers. 7/93.

Matsushita Electric Industrial Co. (Japan)
Will create Zhuhai Matsushita Electric Motor Co. to make motors for audio, video, and office equipment. $18 million. 6/93.

Rotorex International (US)/NA
Will set up joint venture to produce compressors for air conditioners. $40 million. 6/93.

Umformtechnik Erfurt GmbH (Germany)/Qiqhar No.2 Machine Tool Works (Heilongjiang)
Will import German pressing equipment. $61.4 million. 6/93.

Medical Equipment and Devices

INVESTMENTS IN CHINA

Implantoma Co. (Finland)/NA
Will produce mobile dental equipment. 6/93.

Baxter International Inc. (US)/Guangzhou Pharmaceutical Construction Development Co., Guangzhou Economic & Technological Development Zone Industrial Development Corp.
Will manufacture equipment for the treatment of kidney disorders. 6/93.

Oral-B Laboratories Inc., subsidiary of Gillette Co. (US)/Shanghai Daily Use Co.
Will form joint venture to manufacture toothbrushes. (US:70%-PRC:30%). $6.5 million. 6/93.

Packaging, Pulp, and Paper

INVESTMENTS IN CHINA

ACI Packaging Group (Australia)/Guangdong Glass Factory
Will modernize 30-year old plant and incorporate ACI's packaging technology to produce and sell beer bottles. $108 million. 6/93.

ACI Packaging Group (Australia)/Shanghai Shenguang General Glass Factory
Will establish joint venture to produce and sell bottles. $60.2 million. 6/93.

Leighton Mardon Pacific Packaging (Singapore), a subsidiary of Amcor Group (Australia)/China National Tobacco Corp. (Qingdao)
Will create joint venture to manufacture flip-top cigarette packets. (Singapore:60%-PRC:40%). $10 million. 5/93.

Formosa Plastics Group (Taiwan)
Will build 90,000 tpy wood pulp facility in northwest China. $54 million. 5/93.

Petroleum, Natural Gas, and Related Equipment

CHINA'S IMPORTS

Halliburton Co. (US)/SINOPEC
Will supply equipment for the Dongheteng oil field at the Tarim Basin in Xinjiang. 6/93.

INVESTMENTS IN CHINA

Concord Group (US)/NA (Zhejiang)
Will build a 5 million tpy oil refinery in Zhejiang Province. $2.6 billion. 6/93.

Vitol (HK)/Maoming Petroleum Chemical Co.
Will build 100,000 bpd refinery to produce gas, oil, and fuel distillates. $30 million. 6/93.

OTHER

The Shell Group of Britain (UK)/China National Oil & Gas Exploration & Development
Signed 7-year contract to prospect for oil in Jiangsu Province. 6/93.

Fletcher Challenge Ltd. (New Zealand)
Opened a representative office in Beijing. 5/93.

Ports and Shipping

CHINA'S IMPORTS

Daewoo Shipbuilding & Heavy Machinery Ltd. (South Korea)/NA
Will sell two 44,000 dwt bulk carriers. $50 million. 6/93.

INVESTMENTS IN CHINA

Associated Industries (Taiwan)/Baoshan Iron & Steel Plant, Baoshan Luodian Industry Corp.
Will form Shanghai-Baowei Industries joint venture to produce 30,000 cargo containers per year. $29.5 million. 6/93.

CHINA'S SALES ABROAD

Dalian Shipyard/Gearbulk Holding Ltd. (Norway)
Will sell two 47,000 dwt open-hatch bulk carriers. 6/93.

OTHER

Maersk Line (Denmark)/SINOTRANS
Will provide feeder service between Shanghai and Kobe. 5/93.

Neptune Orient Lines (Singapore)/SINOTRANS
Will operate carrier line between Fuzhou and Japan. 5/93.

Power Generation Equipment

CHINA'S IMPORTS

Windmaster BV (Netherlands)/NA (Xinjiang)
Will sell 30 wind turbines. 7/93.

CHINA'S INVESTMENTS ABROAD

China/Iran
Will build a 300 mw nuclear power plant near Tehran. 7/93.

OTHER

World Bank
Will provide loan for 1800 mw Tianhuangping hydroelectric facility in Zhejiang Province. $300 million. 5/93.

Westinghouse Electric Corp. (US)/Longyuan Power Technology Exploitation
Will upgrade poor quality generators to slow coal consumption. 6/93.

Property Management and Development

INVESTMENTS IN CHINA

Ekran Berhad (Malaysia)/China National Culture and Art Corp. (Haikou)
Will form joint venture to build the Hainan China Culture and Art Centre. $110 million. 7/93.

Max Union Real Estate Development Co. Ltd. (HK)/NA
Will invest in Jiangfeng Villas in Suzhou. $38.6 million. 7/93.

Chungking Holdings Co., Ltd. (HK)/Beijing Religious Real Estate Development Co. (Beijing)
Will invest in the construction of commercial and entertainment facilities on Wangfujing Street. $70 million. 6/93.

Club Med Inc. (France)/Sanya Luhuotu Tourist Area Development Corp. (Hainan)
Will create joint venture to build an upscale vacation village. 6/93.

NA (US), NA (HK)/NA (Hainan)
Will develop Yalong Bay Resort. US partner will invest $600-700 million, HK partner will invest $17.2 million. 6/93.

Yick Fung Shipping and Enterprises Co. (HK)/Shanghai United Ocean Shipping Development Corp., Shanghai No.3 Construction Development Co.
Will build the International Ocean Transportation Centre 50-story skyscraper in Pudong. $150 million. 6/93.

Sincere Co. (HK)/NA
Will develop a shopping complex in Chengdu. $15 million. (HK:51%-PRC:49%) 4/93.

CHINA'S INVESTMENTS ABROAD

Foreign Engineering and Construction Corp./NA (Spain)
Will build a theme park outside Barcelona. $100 million. 7/93.

Telecommunications

CHINA'S IMPORTS

ATEA Co., a subsidiary of Siemens AG (Germany)
Will supply telephone exchange systems to Inner Mongolia, Guangxi, Shandong, Henan, and Hunan provinces. 6/93.

Hughes Aircraft Co. (US)/APT Satellite Co. (joint venture among China, Singapore, Macao, Thailand)
Sold a medium-sized 24-C band transponder satellite to be launched in mid-1994. $75 million. 6/93.

Northern Telecom Inc. (US)/SPC
Will produce data switches and systems for Beijing, Tianjin, Shanghai, Shantou, and Chengdu. 6/93.

Olex Cables, a subsidiary of Pacific Dunlop (Australia)
Will supply transmission equipment and 3,150 km of optical fiber cable to link three cities in northwest China. $47.7 million. 6/93.

Unisys Corp. (US)/NA (Guangdong)
Will provide voice mail and calling card services. $8.5 million. 6/93.

Alcatel Bell (Belgium)/BOC
Sold digital long-distance switching and postal automation equipment. $250 million. 5/93.

INVESTMENTS IN CHINA

International Data Group (US)/Shanghai Institute of Scientific and Technical Information
Will form joint venture to improve Shanghai's international information systems. $200 million. 6/93.

Pacific Technology Venture Fund Inc. (US)/Science & Technology Investment Co., Inc. (Shanghai)
Formed Shanghai Pacific Technology Venture Fund (SPTV) to invest in enterprises in Shanghai. $20 million. (US:50%-PRC:50%). 6/93.

OTHER

HutchVision (Hong Kong)
Will set up offices in Sichuan, Beijing, Shanghai, and Guangzhou to sell STAR TV. 6/93.

ITS Asia Pacific (NA)
Will open offices in Beijing, Shanghai, and Guangzhou to provide data communications equipment for airports. 6/93.

NA (Finland)/NA
Will establish satellite system to predict natural disasters. 6/93.

Textiles and Apparel

INVESTMENTS IN CHINA

Kabool Co. (South Korea)/Yanji Textile Mill (Jilin)
Will build a textile factory in the Yanbian Korean Autonomous Region in Jilin Province. $15 million. (South Korea:67.7%-PRC:33.3%). 6/93.

Transportation

CHINA'S IMPORTS

The Boeing Co. (US)/Shanghai Airlines
Sold five 767-300 wide-body passenger jets. $450 million. 5/93.

CFM International, a joint venture between GE Aircraft Engines (US) and Nationale d'etule et de Construction de Moetuers d'Aviation S.A., Ste. (France)/China Northwest Airlines (Xian)
Sold CF6-80C2 engines for the airline's Airbus 300-600R planes. $225 million. 6/93.

Pratt & Whitney, a subsidiary of United Technologies Corp. (US)/China Northern Airlines (Shenyang)
Sold PW4000 engines for Airbus aircraft. 5/93.

INVESTMENTS IN CHINA

AEG, a susidiary of Daimler-Benz AG (Germany)/Shanghai Crane & Conveyor Works
Will form joint venture to produce rail cars for subway networks in Shanghai and Beijing. $200 million. 6/93.

ICF Kaiser Engineers (US)/NA (Shenzhen)
Will help build two aluminum-wheel casting plants to produce 500,000 wheels annually. $25.4 million. 6/93.

Neoplan Co. (Germany), Yuehai Group (HK)/NORINCO
Will form the Beijing North Yuehai Neoplan Vehicle Corp., which will produce 1,500 cars per year. $65 million. 6/93.

Wonderf Co. (US)/Jinmei Expressway Cooperative Ltd.
Will build expressway between Taiyuan and Jiuyuan. $3 billion. 6/93.

Ameritech International Corp. (US)/NA
Will invest in a 25-mile rail line between Guangdong and Hong Kong. $91.2 million. 5/93.

Suzuki Motor Co. (Japan)/Wangjiang Machinery Co.
Will form joint venture to build motorcycles. $5 million. 5/93.

Suzuki Motor Co., Nissho Iwai Co. (Japan)/Changan Automobile Corp. (Chongqing)
Will form joint venture to build passenger cars. $170 million. 5/93.

Tibs Holdings (Singapore)/NA (Beijing)
Formed the Jingda Automotive Manufacturing Co. in Beijing to produce luxury buses. $29 million. 5/93.

OTHER

Ford Motor Co. (US)/NA (Shanghai, Beijing, Shenyang, Dalian, Guangzhou)
Established franchise agencies to sell Ford products to the Chinese market. 6/93.

GM Automotive Components Group Worldwide (US)
Will open office in Beijing. 6/93.

CIS/China
Will wet-lease 16 aircraft. 4/93.

Miscellaneous

OTHER

Italian Institute for Foreign Trade (Italy)/University of International Business and Economics (Beijing)
Will train Chinese managers from small- and medium-sized enterprises. 5/93.

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