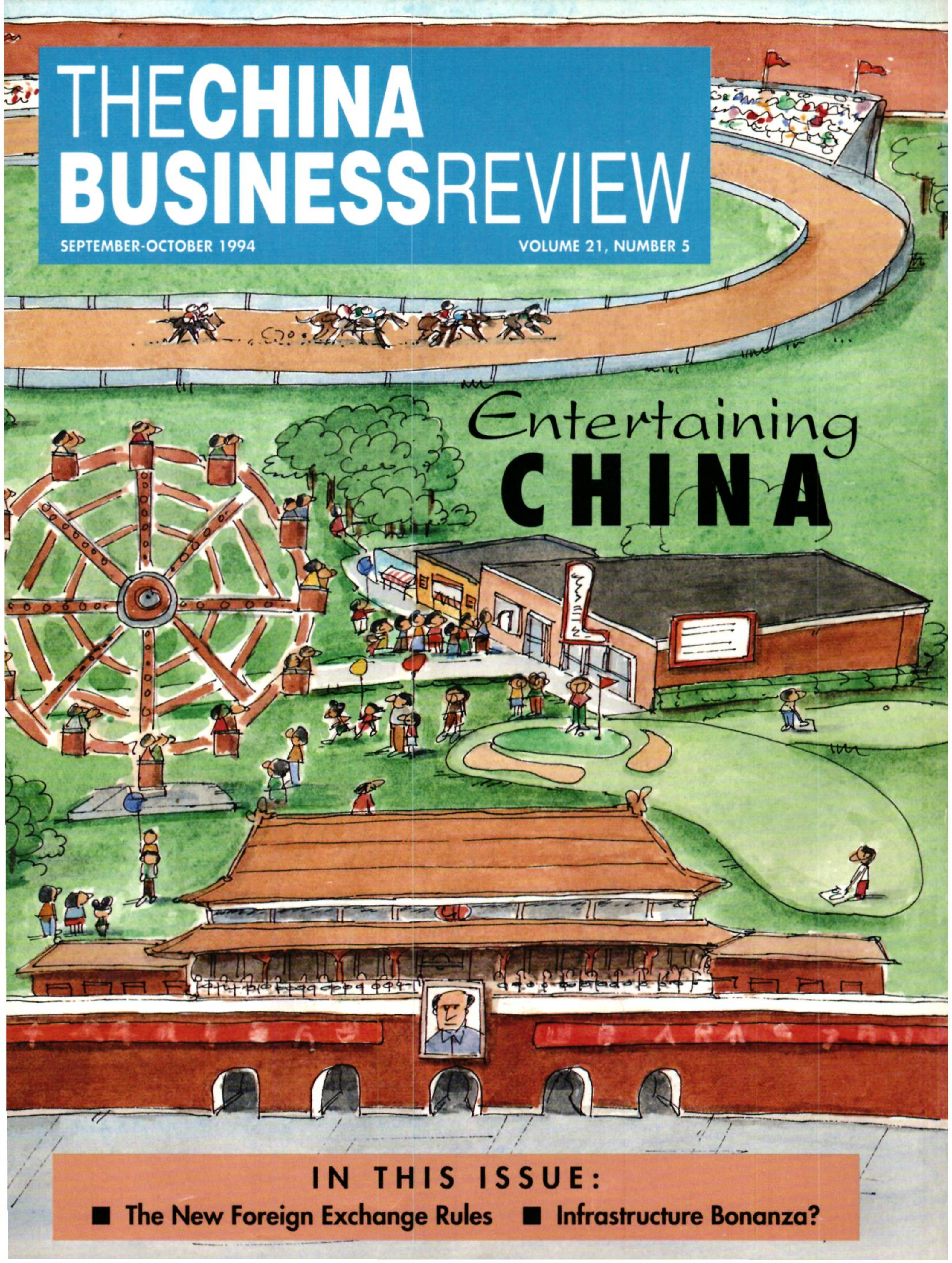
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Entertaining CHINA
IN THIS ISSUE:
■ The New Foreign Exchange Rules ■ Infrastructure Bonanza?

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Cover illustration by Jim Paterson

China's Latest Industrial Blueprint

In late June, the State Planning Commission (SPC) released its industrial development outline for the remainder of the decade. Following on the heels of the overall plan was a detailed sectoral policy for the automotive industry. SPC plans to release additional directives on transportation, telecommunications, construction, electronics, machinery, petrochemicals, and foreign investment and trade in the months to come.

The SPC blueprint gives special attention to agriculture, infrastructure, foreign trade, and China's four "pillar" industries—petrochemicals, autos, construction, and electronics and machinery. Key points of the plan include:

■ **Agriculture** Each province will create agricultural-development zones that will receive priority access to low-interest loans for the processing, storage, and transport of agricultural products. Export zones will be set up in coastal areas. "High-tech" agricultural zones will welcome foreign investment in such areas as biotechnology, waste processing, agricultural machinery, and the development of safe pesticides.

■ **Infrastructure** Emphasis will be on improvement of transportation and telecommunications networks and accelerated development of energy resources—especially coal, onshore oil, and electric power. Policymakers are seeking foreign investment in high-risk, technologically challenging areas, such as the Tarim Basin. While foreign investment in electric power remains a priority, investors will be expected to come up with their own financing (*see* p.44).

■ **Trade** Diversification of China's export trade through the promotion of agricultural, light industrial, and textile goods, as well as those produced with domestic technology, will be stressed. Planners discourage both the export of low-technology products and the import of expensive consumer products, though the industrial policy outline contains no details of what "discouragement" will mean in practice.

■ **Petrochemicals, autos, construction, and electronics and machinery** Technological improvements are sought in all of these industries. Beijing will support the formation and strengthening of industrial groups on the Korean Chaebol model to achieve economies of scale in "markedly successful" products. The government will continue to support economic development zones and the development of relatively high-tech, export-oriented industries on the coast and resource-recovery industries in the interior.

New auto policy

In early July, China published a controversial automotive policy that will likely raise eyebrows among US trade officials and cause problems for China's GATT accession.

The plan details China's aim to develop its weak domestic industry into an international contender within 15 years. To accomplish this feat, planners from the Ministry of Machine Building Industry and the SPC have set high localization targets for auto joint ventures, requiring new projects to produce autos with 40-50 percent local content initially and 80-90 percent local content within a few years—or face prohibitive import tariffs.

The Chinese partner must hold a minimum 50 percent share of any new auto joint venture, and no complete or semi-knock-down (CKD or SKD) assembly ventures will be approved. Every new venture must also establish research and development facilities within its enterprise, and all must balance their own foreign exchange, mostly through export of their vehicles or components.

—*Anne Stevenson-Yang*

Anne Stevenson-Yang is director of the Council's China operations.

SHORT TAKES

MFN Postscript

The House of Representatives signaled a clear endorsement of President Clinton's May 26 order to de-link China's Most Favored Nation (MFN) status from human rights by defeating bills proposed by Rep. Jerry Solomon (R-NY) and Rep. Nancy Pelosi (D-CA). The Pelosi bill sought to ban PRC goods made by State- or military-owned enterprises, while the Solomon measure proposed to withdraw China's MFN status altogether. Instead the House passed an amendment introduced by Rep. Lee Hamilton (D-IN) that basically codifies the President's MFN position. The Senate appears unlikely to introduce a companion bill.

USTR on IPR: Round 2

Despite Beijing's well-publicized campaign to crack down on some of China's intellectual property rights (IPR) pirates and establish special IPR courts in Beijing and Shanghai, the Office of the US Trade Representative (USTR) in June listed China as a "priority country" under Section 301 of the 1974 Trade Act. That designation set in motion a new six-month investigation of China's IPR regime.

If USTR and Chinese officials fail to reach an agreement on how to improve enforcement of China's IPR legislation by the end of the year, the United States will likely impose up to $1 billion worth of sanctions against Chinese goods. US industry groups estimate that China's failure to enforce its new copyright regulations costs US companies more than $800 million last year.

Hong Kong Gets Reform Bill

By a 32-24 margin, Hong Kong's Legislative Council (Legco) approved Governor Christopher Patten's political reform package on June 30, despite Beijing's threat that the reforms would provoke the PRC to dissolve the lawmaking body once the territory's sovereignty reverts back to China in three years.

The constitutional reform package, which will broaden the electoral base and increase the number of directly elected legislators, will also enable up to 2.5 million people to elect representatives indirectly through 30 functional constituencies, which group voters according to occupation.

While China's swift denouncement of Legco's action was predictable, observers noted that Beijing's readiness to complete negotiations over the future of British military bases in Hong Kong the same day Legco passed the electoral reforms seems to indicate the Chinese are willing to "agree to disagree" over the terms of Hong Kong's transition. Under the new military agreement, China will take back 14 military bases in Hong Kong but will leave 25 sites, estimated to be worth over $10 billion, for commercial development.

With the Legco vote over and the negotiations over the military installations behind them, China and Hong Kong are likely to push ahead on resolving their differences over Hong Kong's airport and container terminal development plans.

—PB

Hot Change

Coin collecting, one of the oldest hobbies in the world, is thriving in China. Over the past 15 years, the People's Bank of China (PBOC) has turned over $7 million worth of gold and metal alloys into more than 200 different series of coins, which are sold both within China and abroad. The first commemorative set, issued in 1979, featured coins honoring the 30th anniversary of the PRC. Other series have highlighted a diverse range of subjects, such as the Winter Olympics, Chinese archaeological finds, and Chinese historical figures.

The most popular coins, however, have been those featuring pandas. Since the series was inaugurated in 1982, the PBOC has used over 1.75 million ounces of gold to make the panda coins, which feature a different design each year. The most popular 1 ounce gold coin currently sells for $415, while a 1 ounce silver coin goes for $14.95. About 25 percent of total production since 1982 has been sold in the United States by PandaAmerica Inc. of California, the PBOC's US distributor.

PandaAmerica's total 1993 US sales reached $30 million, with approximately $12 million of that figure coming from sales of panda coins. These coins have proven extremely popular among Chinese-Americans, who view them as a connection to their homeland. For each set of gold coins it sells, PandaAmerica charges a 7 percent premium over the spot price of gold.

Based on the popularity of the panda coins and the addition of new commemorative sets each year, PandaAmerica expects sales will continue to grow as its customers—mainly long-time collectors—introduce their children to coin collecting. Though not legal tender, China's commemorative coins seem to have struck a chord with numismatists and panda-lovers the world over. After all, they're worth their weight in gold—and then some.

—Meredith Gavin

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A New Chapter in US-China Relations

■ **Robert A. Kapp**

By the time you read this issue of *The CBR*, US Secretary of Commerce Ron Brown will have completed his first official visit to China, accompanied by a senior interagency delegation of US officials and a group of American CEOs in key fields of US-China business—automotives, finance, infrastructure, and telecommunications.

As Commerce Secretary, Brown is the ranking US representative to the Joint Commission on Commerce and Trade (JCCT), the bilateral consultative forum that emerged in the mid-1980s as a channel for discussion of commercial problems between the two countries. After a long hiatus following Tiananmen, the JCCT flickered back to life in December 1992 when then-Commerce Secretary Barbara Franklin traveled to Beijing.

This meeting was followed by a session in Washington this past April. At that session, working groups convened to discuss common ground and points of dispute in such sectors as information technologies, telecommunications, transportation, aviation and airport infrastructure, automotives, energy, services, and environmental technologies. The positive tone of the April meetings paved the way for Secretary Brown's August mission.

Partly a response to an invitation extended by China's Minister of Foreign Trade during their April talks, the Brown trip is also intended to convey at a very senior level the Clinton Administration's abiding commitment to US-China relations. Brown's visit serves to re-emphasize Washington's dedication to a balanced policy of "constructive engagement" with China rather than the single-issue approach espoused by some critics of the Administration's Most Favored Nation (MFN) decision (*see The CBR*, July-August 1994, p.6).

On the practical side, the visit will include a major signing ceremony to underscore US government support for American companies bidding on major Chinese projects. The Administration clearly seeks to reassert US commercial vitality in China after watching key European leaders ceremoniously ink huge deals for their businesspeople this spring, while the United States debated whether to unplug trade relations with China altogether.

Also on Brown's itinerary will be a US-China Business Council-hosted seminar for US and Chinese representatives from industry, government, and the research sector, and a Council luncheon at which the Secretary will give the major policy address of his visit. The Council is pleased to be able to contribute to the Secretary's trip and also to be acknowledged by the Administration as the key representative of the US business community in China. In that role, the Council has conveyed to the Department of Commerce (DOC) a set of issues of concern to our 260 member companies (*see* box).

That Secretary Brown is working to develop closer links with his government's Chinese counterparts is a welcome development. With the MFN matter resolved, DOC and other agencies now have far more leeway to explore avenues of cooperation between our two countries. One example of this type of cooperation, the renewal of high-level legal seminars designed to acquaint China's authorities with the content and operation of US commercial laws and familiarize Americans with China's environment, is expected to be announced during the Secretary's visit.

The importance of being positive

With so many US businesses now firmly on the ground in China, a strong, government-to-government agenda in trade and commerce is a vital part of the bilateral relationship. For a variety of historical reasons, China remains a "hot button" in US politics; it can become a focal point of inflammatory domestic political debate in a way that few other countries can. It is therefore important for the United States to highlight and build upon

the positives of US-China commercial relations if the overall relationship is to withstand the assault of the various congressional and other initiatives that will no doubt arise over the next few years.

A positive, on-the-record commitment to bilateral cooperation is important because trade, while a key component of the US-China relationship, can also be a source of friction. Americans may fume, with good reason, over the the absence of various legal and commercial institutions in China, and the Chinese may grind their teeth over some aspect of US government behavior toward the PRC, but both sides recognize that a world without disputes is a pipe dream. Trade conflicts are here to stay, even in the best of times. Our goal is to prevent them from escalating into full-blown crises from which neither side can emerge undamaged.

Active government-to-government cooperation in trade and economic affairs, as manifested by the Brown trip, provides a necessary balance to the negative currents in US-China relations. Without such cooperation, the inevitable conflicts of the trade sector—and the serious divergences of view in non-trade areas that lay at the root of the MFN crisis—might once again corrode the political consensus that is a prerequisite for stable US-China relations.

Listening as well as talking

As we applaud the resumption of cooperation among key agencies of the US and Chinese governments, some cautionary notes are worth remembering. Government-to-government initiatives, particularly those of two large countries, rarely fit neatly into discrete packages. Sometimes different agencies will each pursue their own projects without sufficient inter-agency coordination, generating duplicative or even contradictory efforts. We have to hope and urge that the initiatives advanced by Secretary Brown and his Chinese counterparts will truly be integrated into coherent national approaches by both countries.

High-level visits are also high-visibility affairs. While symbolism is one of the great virtues of such visits, it can ring hollow if it is not later cemented with concrete action. As senior leaders always want to be able to announce new deals or policies on foreign trips, follow-up visits by representatives of both governments would help galvanize both the Chinese and US bureaucracies to undertake solid initiatives. We hope that the Secretary's visit, and the progress that it can engender, will catalyze future visits by increasingly senior US and Chinese leaders.

The Secretary's trip, and the message we expect it to offer—a post-MFN US policy toward China that has at its core the goal of enhancing business relations with the Chinese—are very good news for Council members as well as the wider US-China business community. Brown's visit makes clear that the United States has turned an important corner in its relationship with the People's Republic, and that it will now approach the PRC with a commitment to build a more constructive, positive partnership. The expected signing of several major contracts for US firms immediately after the Council's luncheon session will brighten bilateral spirits. Let's hope that this is just the first of many such events in the future. 完

Front-Burner Issues

In anticipation of Secretary Brown's trip to China, the Council submitted comments to DOC outlining a number of concerns of our member companies. Our comments focused on a desire to see progress in several areas:

■ **A more open Chinese market** Foreign companies may not engage in foreign trade in China and are prohibited from participating in much of the service sector. We believe foreign companies should be permitted to establish fully integrated operations in China, including importing, manufacturing, marketing, distribution, service, and maintenance. Furthermore, we propose that China allow the growth of foreign participation in service industries, including insurance, accounting, law, and travel services.

■ **A clearer and more uniform Chinese legal system** We would like to see Beijing end bureaucratic interference in company operations. The problem arises in large part because government organs are responsible for monitoring foreign activity in the very business sectors in which their own spin-off corporations now compete. We hope that the Chinese will promptly issue and enforce detailed laws eliminating this conflict of interest, as well as publish clear procedural guidelines for appealing bureaucratic decisions. Achieving progress in this area will also require strengthening impartial channels for effective resolution of disputes related to Chinese government organizations.

■ **Better protection of intellectual property rights** Pirating of patents, trademarks, and copyrights is a significant barrier to technology transfer to China. While recent years have brought improvements in the legal environment, both stronger laws and diligent enforcement are crucial if US and other foreign firms are to avoid billions of dollars of losses each year and if major US-China trade conflicts are to be avoided. China needs to strengthen its laws, administrative system, and courts to protect intellectual property rights.

■ **Stronger environmental protection** US manufacturers too often lose out to Chinese and other competitors who employ piecemeal environmental protection measures and therefore can market their goods and services at lower cost. We believe that not only US industry's interests, but also the welfare of the Chinese people, would be served by more vigorous environmental protection. Higher standards in auto emissions, energy byproducts, and pollution discharge from chemical manufacturing processes would serve the dual purpose of stressing US industrial strengths and bringing to China cleaner and safer automotive, power-generation, and other technologies.

COMMENTARY

The Right Time and Place

■ Michael F. Roehrig

Foreign lawyers may be mismatched to some China work

I was recently told about a board of directors' meeting at a Shekou joint venture. Following the meeting, the lawyers for the Chinese and foreign sides prepared to write up what had transpired. But each lawyer's notes contained completely incompatible legal interpretations of the discussions. As a compromise, the joint-venture manager, who had a master's degree in law from a Chinese university, was asked to present her notes; after some discussion, the two sides accepted her version as the basis for the minutes of the meeting.

This story illustrates the very different perspectives Chinese and foreign joint-venture partners often have on laws and regulations. The tale also underscores a foreign company's need for negotiators who understand the expectations of both parties, and a joint venture's need for a representative who can bargain effectively on its behalf.

When embarking on a China venture, many Westerners—particularly Americans—assume that their business dealings will be guided by lawyers, as is the custom in many Western countries. But foreigners entering the China market should be aware that lawyers—whether Chinese or foreign—play far different roles in China than in the West. With the explosion of new law firms and consulting groups dedicated to China-related activities, there is no shortage of individuals—Chinese and foreign—claiming to be experts on Chinese law. How then, does one find the right person for the right job?

When to look West...

When initiating a business deal, foreigners need to pay particular attention to which type of lawyer—Chinese or foreign—to retain. In fact, an attorney is not always required for functions such as negotiations. A non-lawyer with substantial knowledge of the Chinese legal system may be able to get the job done more effectively, as successfully completing a negotiation in China often comes down to the ability of the foreign partner to bargain around the law without actually violating it.

Clearly, however, most firms will want the advice of legal counsel. But research I recently conducted in China indicates many foreign company representatives are dissatisfied with the aggressive, confrontational styles of many Western-trained lawyers. The company representatives claimed that foreign attorneys too often focus on legal minutiae and alienate the prospective Chinese business partners. One possible way to avoid such problems is to have a representative of the foreign partner actually conduct the negotiations, while the Western lawyer acts as her consultant.

While a foreign lawyer well-versed in Chinese law and business practices may be an ideal player—in a consultant

■ Michael F. Roehrig recently completed a Ph.D. in political science at Ohio State University. He is the author of *Foreign Joint Ventures in Contemporary China*, to be published by St. Martin's Press later this year.

role—in joint-venture negotiations, hiring a Chinese lawyer to handle this task may be a mistake. Chinese lawyers tend to be more hesitant to challenge China's legal system, especially on behalf of a foreign corporate interest. Once a venture is operational, however, Chinese lawyers often prove invaluable, as they have the necessary legal and cultural knowledge to bargain effectively at the local level. A foreign lawyer, in contrast, even if fluent in Chinese and knowledgeable about Chinese business practices, may be ill-equipped, especially in light of unpublished or *neibu* regulations, to deal effectively at the local level, where bargaining though personal contacts is expected.

...and East

In fact, one Wuhan joint-venture manager I interviewed last year stressed that every joint venture should have a Chinese lawyer "if for no other reason than to supervise the hundreds of contracts you go through in China." This manager found that contracts he has signed with the city government have not been a problem, with each side living up to its responsibilities. Contracts signed with other units, however, have resulted in a number of disputes.

In one instance, the manager agreed to pay a set amount per month for the right to build a water pump in a nearby village. But when the village mayor who had signed the contract died, his replacement declared the contract invalid due to the original signatory's death and demanded extra payments to keep the pump running. The joint-venture manager refused to pay the extra money and the township shut down the pump. The venture is now relying on an experienced local lawyer to negotiate a settlement and supervise the formulation and implementation of contracts signed with other parties.

Lawyers in China are often limited to consultation and bargaining—work for which a Western law degree may be superfluous—because of the immature nature of the Chinese legal regime and the great importance Chinese place on personal relationships. As China's legal system is still being developed, it tends to be unpredictable. Interpretation and implementation of foreign trade laws in particular remain open to negotiation.

> Successful completion of a negotiation in China often comes down to the ability of the foreign partner to bargain around the law without actually violating it.

Moreover, chronic resource shortages and transportation inefficiencies make bargaining beyond administrative and legal boundaries a fact of business life. In such an environment, the skills and expertise of a foreign lawyer may be ill-matched to the venture's needs. A local lawyer with strong personal connections can probably bargain around the law and through the "back door" (*hou men*) on behalf of a joint venture more effectively.

A happy balance

Decentralization of decisionmaking in China has given substantial freedom to local bureaucrats to interpret ambiguous laws that apply to a foreign investment community perceived as rich in financial resources. Thus, once they are up and running, Sino-foreign joint ventures should retain the services of people knowledgeable about Chinese joint-venture laws, familiar with Chinese culture, and able to bargain effectively in a system in which the "rule of man" is stronger than the "rule of law." Few foreign-trained lawyers meet these criteria.

Foreign legal counsel may be very effective, in contrast, during the establishment or dissolution of the venture. Laws and procedures governing these procedures are generally straightforward, offering less room for interpretation and maneuvering than is present during the negotiation or operational stages. 完

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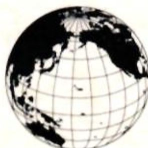

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"Second-Generation" MNCs in China

■ Stephen M. Shaw and Johannes Meier

More and more companies are investing in China for strategic reasons

■ **Stephen M. Shaw is a principal and Johannes Meier is a consultant in the Hong Kong office of McKinsey & Co., Inc., an international management consulting firm. This article has been adapted from one that originally appeared in *The McKinsey Quarterly*, 1993, No.4.**

In recent years, China's remarkable economic progress has led multinational corporations (MNCs) already operating there to revise radically their view of the country's opportunities and redouble their efforts to capitalize on its potential. As the senior managers of many North American, European, and Asian MNCs come to believe that the forces working to open up China's economy are irreversible, they are hastening to expand the scale, scope, and structure of their activities in the country. To understand these changes in more detail, McKinsey surveyed 14 MNCs (eight industrial companies and six consumer goods enterprises) from July-September 1993. All of these firms have a significant presence in China and are regarded by China-watchers as successful. More than half are earning a return on sales of 10 percent or more from their China-based businesses; another third report achieving returns of 6-10 percent.

These companies are not in China to take advantage of its low labor costs and then jump to another country when development inexorably drives those costs up. These companies are there for the long haul. They have already figured out how to make profits and sustain them over time, and are working to lock out slower-moving competitors. In particular, they are focusing on effectively managing key local partners, keeping their business systems simple, and laying organizational foundations for a national presence.

Worth the wait

China is—and will long remain—a difficult and uncertain operating environment for MNCs. But the long-term economic opportunities China offers are so remarkable that senior managers will find it prudent to pay attention to the experiences of those companies most active there to date.

Many of these pioneers are now moving, purposefully and aggressively, into a distinct second generation of business activity in China. Though it is too early to generalize about a set of broadly applicable "best practices" for others to follow, it is possible to detect a pattern of development that characterizes successful China investments (*see* Table 1). In virtually every case, the companies we surveyed began with one or two small ventures—small both in financial commitment and in scale relative to the parent's global business lines—as a way of putting an opportunistic toe in the water. In two-thirds of these early ventures, invested capital amounted to $10 million or less.

To some extent, this path was dictated by China's central government, which throughout the 1980s closely controlled which foreign firms could enter the market, in which product categories they might compete, in which geographical areas they might operate, and with which local partners they might do business. At the time, such constraints seemed bearable since the reason for entry was not so much to capture spe-

cific opportunities as to learn how to do business in China with a minimum of risk.

Over time, however, some ventures proved so troublesome that two of our survey participants lost their initial enthusiasm. Unreliable partners, low sales volumes, scarcity of local managerial talent, and problems with local corruption all contributed to decisions by these MNCs to limit—or at least sharply decelerate—further investment in China.

But most of the MNCs interviewed took such frustrations in stride, viewing them as an unavoidable part of the learning process in a complex and unfamiliar environment. After a few years, these companies made explicit, strategic decisions to move beyond the experimental stage. In practice, this "second-generation" of activity involves rapidly expanding both the number and the size of their China ventures. If current negotiations are completed successfully, nearly all of the companies we surveyed will soon have a minimum of four separate ventures in China, and several will have over a dozen. Accordingly, they plan to raise their invested capital in the country from an average $50 million per MNC today to more than $200 million within three years. By contrast, those MNCs that still operate in first-generation—or experimental—mode have a current exposure, on average, of only $10 million, which they plan to raise to $50 million by 1997.

> For second-generation MNCs, the objective is to build and hold a dominant share of the Chinese market, and to pre-empt, if possible, entry by other MNCs.

More is better

To some extent, MNCs create multiple ventures to deal with the fragmented, sub-scale, and extremely locally oriented nature of most of the Chinese economy. These characteristics are vestiges of the traditional communist planning system, which for political as well as strategic reasons sought to develop self-sufficient economic "cells" within each province to serve a highly dispersed set of demand centers.

Multiple ventures are also necessary because China's extremely poor transport infrastructure makes it impossible to source or distribute goods over great distances. For every thousand square kilometers of land, for example, China has only 108 km of roads (compared with 563 in South Korea and 684 in the United States) and 8 km of railroad track (compared with 31 in South Korea and 44 in the United States).

The rapid move to multiple ventures also reflects the raised strategic sights of second-generation MNCs. For these firms,

TABLE 1
Stages of MNC Business-Building in China

	STAGE 1 "Opportunistic experimenter"	STAGE 2 "Strategic investor"	STAGE 3 "Dominant local player"
Primary objectives	Establish small local presence Learn about market Learn how to operate and manage business in China Assess risks and rewards of making additional investments	Build broader multi-regional or national presence (through sales or facilities) Preempt competitors by seizing first-mover advantages Develop substantial local management capability	Secure dominant share of market within industry sector Shape industry structure and norms to achieve sustained superior returns
Key charateristics of operations	One or two ventures achieving limited coverage; an extension of trading-based opportunities Simple operations with low asset commitment/exposure Active experimentation with localization, business system design, and partnerships	Multiple ventures in various locations and/or product areas with umbrella management High exposure to China sales and assets Substantially expanded business systems beyond basic manufacturing into sales, service, product design, etc. Close corporate tracking of progress in China vs. key competitors	Highly localized management running significant operations (full business system) Viewed as truly local player by consumers and as market leader by customers and suppliers Viewed by government as long-term partner in aiding China's economic progress Significant earnings engine for the corporation
Level of corporate commitment to China	Low	High	Extremely high

SOURCE: McKinsey & Co., Inc.

experimentation is no longer the goal; the new objective is to build and hold a dominant share of the Chinese market, and to pre-empt, if possible, entry by other MNCs, of course, while making good profits.

The MNCs we interviewed indicated their average break-even target for second-generation ventures is only 2.9 years. To reach this target, they are devoting significant energy to overcoming problems with local partners and to strengthening their business organization.

Managing local partners

In many cases, foreign investors have discovered that they and their Chinese partners have conflicting agendas. Chinese partners, in general, are much less interested in winning market share and creating entry barriers for competitors than in gaining access to technology, know-how, foreign exchange, and new jobs. Even so, finding and cultivating good local partners—most commonly,

Second-generation MNCs have begun to dilute the influence—and the equity holdings—of their initial local partners.

government-controlled factories that report to the municipal bureau overseeing their industry—remains vital for both business and legal reasons.

Implicitly or explicitly, MNCs hope that their local partners can add value to their joint ventures in a variety of ways. Some want assistance in setting up day-to-day operations: for example, in securing plant space, personnel, sources of raw materials, and ready-made sales and/or distribution channels. Others desire access to project opportunities, markets, flexible rulings on the use of foreign exchange or State funds, and sometimes even fiscal concessions. Naturally, MNCs also seek *guanxi*—the informal connections so essential to gaining approval for or access to just about everything in China.

In practice, however, the value added by local operating partners is usually quite low to begin with, and steadily declines over time (*see* Table 2). Many of these firms are simply too far down the chain of command to influence either the setting or the application of government policy. As a result, second-generation MNCs have begun to dilute the influence—and the equity holdings—of their initial local partners. It is far more important, they believe, to establish relationships with the decisionmaking authorities—the industry associations and commissions and bureaus—that sit above these operating partners like protective and powerful "mothers." Indeed, for MNCs, these potential "mothers-in-law" represent the best route to the permis-

TABLE 2
Value of Chinese Partner in Joint Ventures

Partner value (average response): 0 = Very low, 4 = Very high

Partner value	Expected	Delivered	Decrease in value of partner over time	Reasons for Unmet Expectations
Reaching the market: Sales contacts; Distribution access; *Guanxi*	3.1	1.9	Major	Sales contacts weaker than promised Distribution obstacles out of the control of both MNC and Chinese partner Partner unwilling to use key government/customer contacts to support JV over its own operations Sales and marketing capability inadequate
Financial contribution: Foreign exchange; Investment	1.9	1.3	Minor	Partner reluctant to part with hard currency reserves; adds no value in terms of access to swap centers Partner severely affected by periodic domestic credit crunches
Operations: Labor; Plant and land; Material supply	2.1	1.9	Slight	Labor skill not as promised Talented employees switch to new companies Plant, equipment, and land do not live up to expectations Partner unable to secure material allocation for JV Partner unable to resolve price, quality, and delivery disagreements with suppliers

SOURCE: McKinsey & Co., Inc.

sions, tax concessions, "locked-in" customers, and central funding they need.

MNC experience to date suggests that choosing the right mother-in-law is as critical a strategic issue as choosing the right initial partner. Good ones not only help foreign companies with their early activities; they also open the door to future possibilities. For example, the municipal government of the city in which a consumer products company established its first manufacturing venture has become instrumental in helping it set up several additional ventures nearby, obtaining for it significant power supply contracts and helping resolve worker management issues. In much the same way, the mother-in-law of an MNC in the chemicals industry is now helping the company expand its activities to nine separate ventures.

Some second-generation MNCs have begun to bypass local entities and cut new deals directly with their mothers-in-law. AT&T Co. and Northern Telecom Ltd. for example, have each signed agreements directly with the State Planning Commission to help them develop national, multi-venture presences that will encompass all their product lines.

Such initiatives are especially appropriate when the industry in question is primarily under central government control and is believed by the Chinese leadership to be of strategic importance, and when the MNC can provide clear value to China through, for example, technology transfer, local employment, or export guarantees. In the automotive sector, for instance, Volkswagen helped build its premier position by being the only major manufacturer to agree not just to import auto kits for local assembly, but to transfer technology as well as research and development management skills to its local partners. The company now controls nearly half the Chinese market for passenger cars.

The virtues of simplicity

Having gained experience in China's harsh and often confusing operating environment, successful MNCs have learned the importance of keeping things as simple as possible. The business systems they have established in China contain only those elements that represent an unavoidable "price of admission" (e.g., some degree of local manufacturing) or that give them a competitive advantage (proprietary distribution channels). Anything that is especially risky or cost-ineffective in the early stages of market development—research and development, for example—is kept to a minimum.

Every MNC will have its own perspective on business system management in China, depending on the specific deals it has negotiated and its understanding of the fundamental factors for success in emerging markets. However, several "simplified" features appear common to many firms. According to our survey, MNCs that are doing well in China tend to:

■ **Focus on their core global products and sell current-generation technology.** While this attitude undoubtedly reflects what Chinese companies want from their Western partners, there also seems to be an underlying strategic rationale at work. Given the long lead time for setting up plants, there is a real danger of older technology being surpassed by other foreign competitors.

■ **Shy away from in-country product design.** The tailoring that does occur is usually limited to adapting product formulations to accommodate local raw materials or to altering labels or instructions. Although a few technology-driven companies in our survey group do plan to set up design centers in China (largely to fulfill promises to develop local design capability or to take advantage of qualified local engineers), most do not consider this important for their medium-term success.

TABLE 3
The Simplified MNC Business System in China

	Design/Product Development	Manufacturing	Distribution/ Logistics	Sales and Marketing
Degree of MNC involvement	**Low**	**Very high**	**Medium**	**High**
MNC objectives	Do as little tailoring as possible; sell current products	Do only what is mandatory Centralize operations to leverage management and ensure quality Localize to balance foreign exchange	Let local partners handle unless critical to success Set rigorous performance standards and supervise closely	Invest aggressively at customer interface • Direct salesforce • Service centers • Retailing (as needed)
Rationale	Risk of technology theft Scarcity of local engineering skills in operations Need to minimize fixed costs in face of modest volumes at outset Fear of competitors leapfrogging technologically	Partner operations inefficient Minimize assets invested Quality of output key to competitive success and franchise development	*Guanxi* needed for access to transportation Tight supervision can ensure quality performance Selection and management (not direct handling) of distributors is vital in consumer goods	Building customer relationships a critical success factor Potential to translate quality image into service-ownership experience Brand establishment key to franchise building

SOURCE: McKinsey & Co., Inc.

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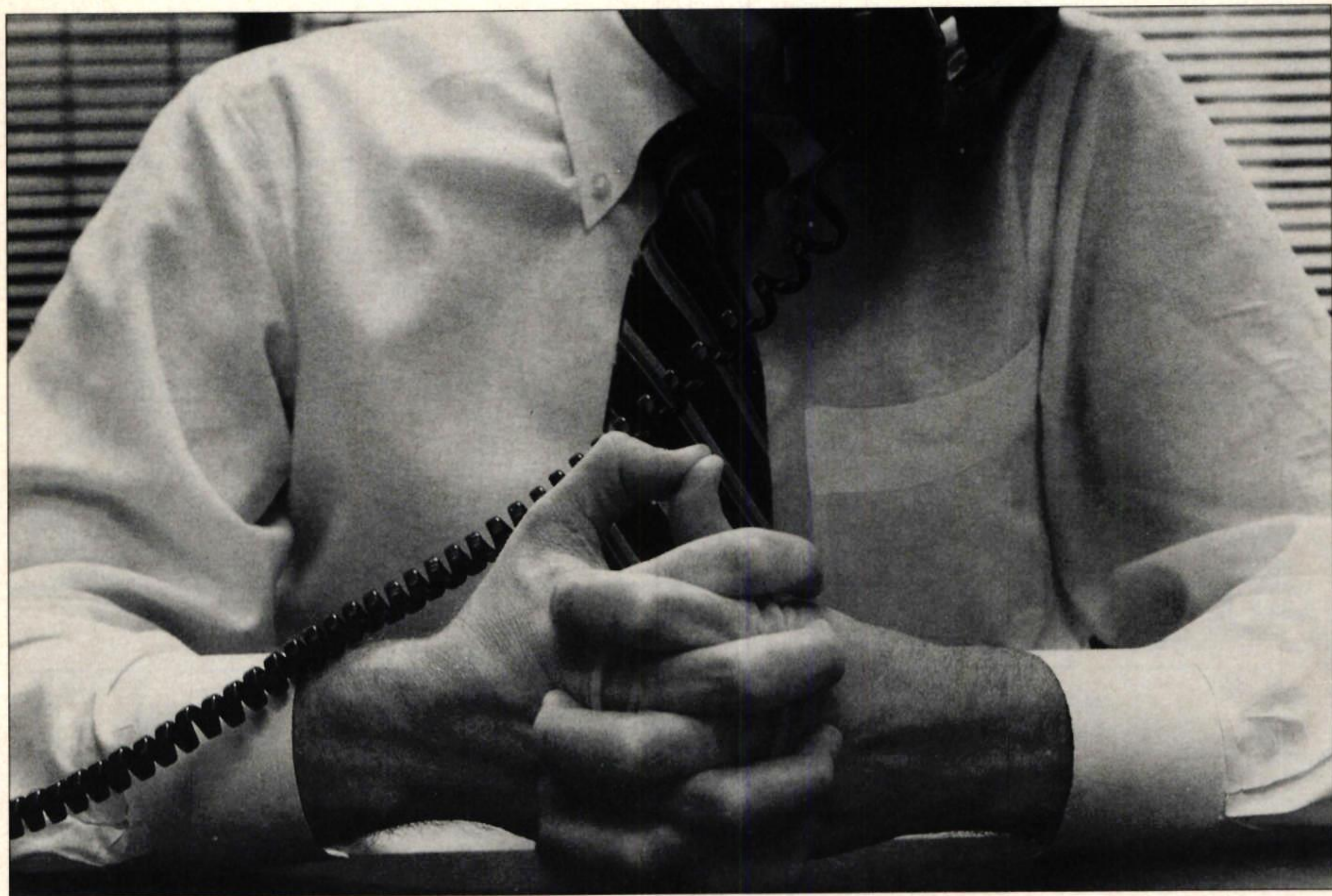

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■ **Concentrate on China's top three urban markets.** Most MNCs have concentrated production in just one or two locations, partly because of the scarcity of experienced local managers but also because of the difficulty of developing good relations with local authorities and learning how to work local sourcing and distribution systems. They view setting up shop in a new part of China—even in another of the top three markets—as a major step. More than two-thirds of our survey group already have ventures in Shanghai, Guangzhou, and/or Beijing, and plan to invest further or develop a greater market presence in these three cities.

Keeping things simple might be the second-generation MNCs' current strategy, but it is not the end game such companies envisage. As the Chinese government eases constraints on foreign participation in distribution, sales, and retailing, more companies are seizing control of these functions to get closer to Chinese customers and establish a distinctive competitive advantage. Moreover, fragmentation of the previously orderly (if inefficient) government distribution system is creating serious gaps in market coverage for companies confined to that channel. Having found that government networks are fine for taking orders but generally abysmal at actively selling products or meeting strict logistics standards, many of the MNCs we surveyed—particularly the more recent China entrants—are building their own sales forces and distribution networks. Some MNCs are establishing nationally coordinated sales forces, while others are buying out dealerships to take control of service centers.

Unfurling the umbrella

As second-generation MNCs confront the challenges of operating multiple ventures in China, they have become acutely aware of the need to manage their entire range of activities in a cost-efficient, coherent manner. In particular, they seek some sort of "overlay" structure to provide shared or centralized functions such as sales force and distribution management, venture negotiation, government relations, foreign exchange balancing, and market research.

Recognizing this need, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) now allows MNCs that have two or more ventures with total registered capital of $10 million (at least a quarter of which is in foreign currency) to establish a new type of corporate entity, the "umbrella enterprise" (*see The CBR*, September-October 1993, p.9). Even under these new umbrellas, MNCs cannot freely import and sell products they make outside China, but they can more readily coordinate the full range of their activities. As these activities become more complex and more strategic in nature, MNCs are increasingly appointing top-level corporate executives—group and company presidents, worldwide functional leaders, and Asia-Pacific marketing chiefs—to head their China activities exclusively, thereby shortening decisionmaking cycles.

For those MNCs that are not yet second-generation players, being left behind by those that are has become a real and urgent risk. If China is indeed of strategic importance, such companies must act quickly and draw on the lessons learned by more aggressive players in the China market. 完

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Fun for the '90s

■ Lisa Atkinson

Entertainment just may be China's newest growth industry

■ Lisa Atkinson, a film and television producer and consultant, has worked extensively on US, Canadian, and Asian co-productions, integrating new digital multimedia and high-definition technology. From 1990-92, she served as the coordinator for radio, film, and television at the Canadian Embassy in Beijing.

By turn enthusiastically welcomed and officially condemned, foreign culture has long had a volatile reception in China—but perhaps no more so than in 1906, when a Manchu official returned from America with samples of a new invention—a film projector. As the official prepared to screen the movies for the Empress Dowager, the projector exploded, causing an unlucky court translator to lose a leg. Needless to say, the presentation was abruptly canceled, though years later foreign films gained a following among China's upper classes.

Since 1949, the access of China's huge population to various forms of entertainment has waxed and waned with the country's economic fortunes and political postures. The current combination of economic decentralization, rising personal incomes, and growing levels of leisure time, however, is proving a fertile mix for China's entertainment industry. According to one Western estimate, Chinese households now spend about one-fifth of their discretionary income on recreational activities. A recent Shanghai newspaper survey estimated the city's residents spent an average of ¥301 on cultural and recreational activities in 1993—an increase of 45 percent over 1992 levels and the largest jump in any category of personal expenditure.

Future trends for entertainment spending look promising, with most Chinese urban incomes still on an upward climb. The State Statistical Bureau reports that last year's average per-capita urban income reached ¥2,337 (up 10 percent after inflation over 1992), while rural incomes averaged ¥921. In the country's wealthiest cities and regions, salaries are often far higher than national averages.

Despite rising incomes, however, most Chinese families had relatively little free time to spend on leisure activities—until recently. After decades of working six days a week, most enterprise and government employees reverted to a five-day work week in March, thanks to a new law passed by the National People's Congress. According to a Beijing survey published earlier this year in *China Today*, most city residents plan to use their new-found free time for recreational activities. Both Chinese and foreign companies are eager to help satisfy their pent-up demand for more and better forms of entertainment.

Who's in charge?

The concept of entertainment, or "popular culture" as it is commonly known in China, covers a vast landscape. Not surprisingly, rules governing the entertainment industry are changing rapidly, and come from different parts of the government bureaucracy. The Chinese Communist Party's Propaganda Department, for example, provides guidelines on what can and cannot go on China's airwaves,

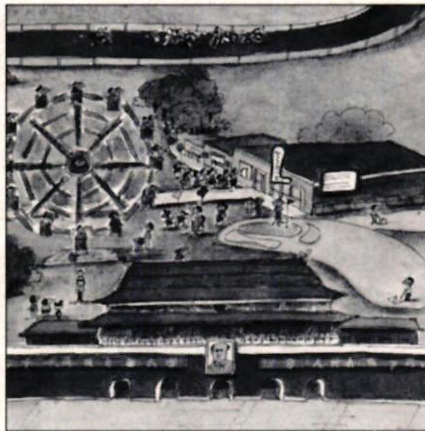
and is trying to crack down on pornography, violence, and content deemed "harmful to State security or social stability." The Ministry of Culture regulates literature, theater, opera, ballet, and concerts. The Ministry of Radio, Film, and Television (MRFT) regulates these three entertainment areas and approves foreign participation in programming joint ventures. Film, radio, and television are each functionally independent departments within the ministry, with each department following guidelines set by the MRFT Policy and Law Department.

Overlap of ministerial responsibility is a growing problem in some entertainment sectors, however, as technology tends to develop faster than the bureaucracy can anticipate. New electronic technologies cause particular problems, as they transcend traditional ministerial boundaries. Thus, aside from MRFT, the Ministry of Electronics Industry and the Ministry of Posts and Telecommunications have a say in the development, manufacturing, and marketing of satellite TV dishes, video cassette recorders (VCRs), televisions, and video games (*see* p.24).

At the same time they wrangle over questions of jurisdiction, ministries are trying to divest themselves of fiscal responsibility for enterprises under their supervision. Reforms instituted by the Ministry of Culture in 1993, for example, attempt to reduce State subsidies for artists by forcing art groups to forge commercial partnerships with local companies. Both central and local leaders, therefore, encouraged the Guangzhou Modern Dance Drama Troupe to merge in 1993 with Xinda Oriental Cultural Co. Ltd., a private concern that has now taken over management of the cash-strapped group. Such moves toward privatization are increasingly common and provide good opportunities for foreign companies wishing to enter the market.

As decentralization of traditional arts-related ministries continues, confusion over who has approval authority over new projects, turf battles between ministries, and lack of clear laws and guidelines will make life difficult for foreigners seeking approvals for joint-venture partnerships and other activities. During this transitional period, a foreign enterprise should first, before stepping foot in China, conduct detailed research on the administration of and reforms in its particular line of business.

Chinese households now spend about one-fifth of their discretionary income on recreational activities.



After completing this research, companies should visit China to scout out potential partners. Be aware, however, that many Chinese firms will agree with your proposals simply to attract hard currency—and the tax concessions to which foreign joint ventures are entitled. Such relationships, which may start with a bang, often fizzle once the joint-venture status is obtained. Therefore, take the time to review your prospective partner's credentials carefully, so that you choose a firm with whom cooperation will be beneficial over the long term.

Trends for the '90s

Much of the groundwork for the current growth of China's entertainment industry was laid in the 1980s, when economic expansion and reforms increased the autonomy and profits of individuals and local-level enterprises. At the same time, popular culture was allowed greater freedom of expression.

In the last couple of years, wide-ranging reforms in the entertainment industry have promoted local autonomy even further and have given rise to new commercial ventures as State monopolies have slowly been disbanded. Reforms introduced in 1992-94 restructured the financing, management, production, distribution, and exhibition of media from film and radio to cable and satellite television. Pricing and profit-sharing reforms are putting more money into the hands of studios, distributors, exhibitors, and creative talent.

The pricing reforms have allowed performers from pop singers to fine artists to seek their own price on the market, within certain guidelines, and spawned the creation of talent agencies to represent the growing ranks of Chinese radio, TV, and video entertainers. More and more of these performers are breaking through to "stardom" and fame both in China and abroad. Chinese pop idol Cui Jian regularly performs in Europe to promote his latest hits, while Cobra, an all-woman rock group, toured Germany this summer. International stars are also choosing to make China a stop on their global concert tours. Paul Simon, for example, performed in Guangzhou in 1992.

Whatever their tastes, the Chinese people now have more options for a night on the town than at any time in the history of the PRC, and their choices are growing. Urban areas are luring not only homegrown performers and investors, but big-name foreign attractions as well. At the grand opening of the Hard Rock Cafe in Beijing in 1994, blues legend B.B. King played to a standing-room-only crowd. Shanghai residents, not to be left behind, will soon be able to pose in their own Planet Hollywood, the trendy California restaurant chain.

Chinese also have more options for entertaining themselves at home. Karaoke and listening to music are popular pastimes. Music programs on radio and TV are attracting growing audiences. In large cities, lovers of classical music are forming salons at which they gather to play new compact discs (CDs). The CD industry, though small at present, is developing quickly. According to the Chinese press, an estimated 600,000-700,000 individuals in Shanghai own CD players.

The home market for video cameras and players is also taking off. Foreign manufacturing joint ventures involving these products include those with Sony (Japan) for video cameras and Matsushita

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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(Japan) for production of VCRs. To promote home electronic equipment, foreign companies are experimenting with marketing methods relatively new to China, such as sponsorship of contests to choose the best home videos and foundations to support rising young singers, artists, and writers.

Radio reaches out

Radio serves as a good study of the fast-paced changes of the 1990s. More radio stations opened in China in the last year than in all the last 50 years combined. China now has almost 1,000 radio stations—most locally run—and the industry is in the midst of a major programming renaissance.

Radio stations are experimenting with new formats as they compete for listeners and advertisers. The Beijing People's Broadcasting Station, for instance, turned its news department into the specialized Beijing News Radio (BNR) in early 1993. BNR airs news programs 15 times a day, provides breaking news stories, and offers a call-in information hotline for listeners. Competitor Beijing Economic Radio (BER) has introduced live Wednesday broadcasts that feature politicians exchanging views with the audience in a question-and-answer format. Shanghai East Broadcasting Station (SEBS), which has gained a reputation for consumer advocacy, features consumer shopping guides and product information spots.

Complaint hotlines and radio talk shows are becoming especially popular outlets for the expression of public opinions on everything from crime to marital problems to interior decorating. Such formerly taboo topics as suicide and sex are now discussed live on call-in shows hosted by professionals who offer sympathy and advice.

Complaint hotlines and radio talk shows are becoming especially popular outlets for the expression of public opinions on everything from crime to interior decorating.

While radio advertising is not new—the Central People's Broadcasting Station began airing ads in 1979—the current abundance of advertising opportunities, which have expanded with the medium, are. Beijing Music Radio, for instance, broadcasts "Nescafe Music Time" and KFC's "Kentucky Music Show," while East Radio Station features "Remy Martin Old Melodies" and "Volvo Hi-Fi Music" programs. The foreign companies pay a fee to sponsor these broadcasts, and can cancel their contracts if they don't like the content or if ratings drop. Even joint-venture radio stations have appeared, such as Radio Beijing, a Sino-Australian venture broadcasting French, English, Japanese, Chinese, and multilingual programs.

Radio advertising rates now run up to $800 per 30-second spot for foreign companies, although prices are lower for domestic and joint-venture firms, which may pay in local currency. Ads are regulated by the State Administration of Industry and Commerce, which approves both foreign advertising and foreign program sponsorship. Independent recording studios have increased in number to supply radio programming and ads.

The TV generation

Television was a major early beneficiary of China's economic reforms. As incomes increased, the number of Chi-

The Story of Qui Ju photos courtesy of Gil-Metropole Organization Ltd. *The Joy Luck Club photo courtesy of Buena Vista Pictures Distribution, Inc.*

Many films made in China are now attracting audiences abroad. Chinese-American director Wayne Wang filmed one of 1993's critical and box-office hits, *The Joy Luck Club*, on location in Shanghai, while two-time Academy Award nominee Zhang Yimou shot *The Story of Qiu Ju* in the hills of Shaanxi.

nese families owning television sets grew from 9 million in 1980 to 143 million in 1989, a 16-fold jump. To accommodate these new and increasingly demanding viewers, programming has become more diverse. In the 1980s, popular TV shows included foreign imports such as *Hotel, The Twilight Zone,* and World Cup soccer. Today, Chinese sitcoms such as *Stories from the Newsroom* and reality-based dramas such as *The New Continent* or *Forever First Love* are the latest rage.

TV production departments are now gaining greater independence from State-run TV stations and local cable systems are springing up around the country. While foreign firms have become enthusiastic advertisers on Chinese television, government restrictions currently limit their ability to supply programming and own or operate television stations (*see* p.29).

Cinemas get a face-lift

The Chinese populace's growing attraction to TV, radio, videos, and other types of entertainment contributed to a 40 percent drop in movie attendance between 1979-89. Alarmed, theaters and other public entertainment venues are now making a concerted effort to upgrade their facilities in order to win back their audiences. From 1983-91, MRFT spent over $90 million to renovate 1,200 urban cinemas nationwide, adding air conditioning, better seating, and novelty features such as special-effect lighting. Some large cinemas were converted to luxury small-screen film salons, better known in the West as multiplexes. Other theaters were restored to glamorous, pre-1950s entertainment palaces, complete with roof-garden teahouses, dance halls, restaurants, department stores, and live entertainment.

As the refurbished theaters have posted increased sales, another 1,000 cinemas have been slated for renovation. The funding for the renovations comes from a variety of sources. MRFT's China Film Distribution and Exhibition Corp. generated around $40 million from its own profits and from loans. China Film's local-level bureaus and the Ministry of Culture's Urban Cinemas Renovation and Building Department are also involved in funding the renovations, and various localities have granted the new projects special tax breaks.

Museum Magic

Did you ever wonder how your eyes can distinguish among hundreds of different colors or how a fiber optic cable carries information? Thousands of Chinese now have a chance to learn more about such wonders of science. One of the first Chinese presentations of its kind, Exploratorium Exhibition China opened in Beijing's Museum of the Chinese Revolution and History on June 28, 1994. There, visitors can mimic sediment and fluid flows by rotating a glass sphere of water and sand, create images of various objects using pinholes and lenses, see how movements affect the shape and appearance of a simulated tornado, and take part in 60 other exhibits.

The show is the creation of numerous organizations, including the China Association of Science and Technology, Tian Yi International Ltd. of Hong Kong, New China News Agency, Robert Lien Enterprises Inc. of Taiwan, and San Francisco-based Exploratorium, a company specializing in the design and construction of hands-on scientific exhibits.

The China project is the brainchild of Katherine Chang-Schiffeler, an Exploratorium board member, who wanted to expose children in Taiwan to Exploratorium's interactive exhibits. In 1991, Chang-Schiffeler, president of Asia-Now Development Corp., contacted three firms she thought would be interested in the Exploratorium concept. The first to express interest was Robert Lien Enterprises, Inc., which became convinced that Exploratorium's hands-on experiments would excite Chinese students by demonstrating scientific principles in non-traditional ways.

Robert Lien Enterprises negotiated with Exploratorium for almost three years on the terms of the show, including location, duration, and which exhibits would be displayed. The most challenging obstacle ended up being the quest for a suitable site for the exhibit. Originally intended for Taipei, the exhibit was shifted to the mainland when the organizers failed to find a suitable venue. Lien found authorities at the China Association of Science and Technology enthusiastic about bringing the project to China, and after a year of further negotiations, secured approval for the exhibition in Beijing. Training of the staff that would accompany the exhibit's tour in China took another six months.

Exploratorium China's 63 exhibits were created in San Francisco at a total cost of $1.5 million. Robert Lien Enterprises has funded the majority of the exhibition, and two American companies, AST Research Inc. and E.I. du Pont de Nemours & Co., have become its official sponsors and have their own displays at the exhibition.

The exhibition will remain in Beijing for approximately three months and will then travel to five other Chinese cities, including Shanghai and Shenzhen, over the next three years. The interactive exhibits have proven extremely popular. Since opening in June, the exhibition has attracted 3,000-5,000 visitors each day.

Exploratorium Exhibition China has also sparked interest from private foreign and Chinese corporations, which have expressed willingness to fund permanent installations of Exploratorium's exhibits in China. Many of these companies operate in high-tech industries and believe that Exploratorium will increase the public's interest in high technology—and therefore in high-tech firms. While high technology may indeed be a draw for some, most visitors will be drawn to Exploratorium just because it's fun.

—Meredith Gavin

Meredith Gavin is a research assistant at The CBR.

Foreigners have been allowed to participate in cinema renovations on a limited basis (*see* p.36). The Shenzhen United Movie Recreation Center, a joint venture involving Shenzhen Film Co., China Film, and Hong Kong's Anle Film Co., was one of MRFT's early joint-venture experiments. The cinema complex opened in 1988 with two large theaters capable of seating a total of 1,100 patrons. Admission to foreign films is charged in Hong Kong dollars, which many residents of this Special Economic Zone have access to, while domestic film admissions are priced in *renminbi.* The center's box office profits are shared with Anle, the foreign partner. A precedent-setting model, this revenue-sharing scheme could not be widely employed in other areas of China, however, as the general population does not have ready access to foreign currency—the critical component of the deal for the foreign investor.

Amusement parks and resorts: the next wave

The growing number and spending power of domestic Chinese tourists has helped create a major new growth area for the entertainment industry—theme parks and holiday resorts. Favorite destinations for the 320 million Chinese who took trips within China last year include Beijing, Guangzhou, Shenzhen, Shanghai, and Hainan Island. Not surprisingly, these locations have become favored sites for planned amusement parks and resort facilities. Approximately 230 holiday resorts are now under development around China. Many of these sites are being developed by Hong Kong, Taiwan, and Southeast Asian investors, who also have an eye on the burgeoning number of overseas Chinese tourists visiting the mainland.

Resorts with cinematic themes are especially popular with developers. In 1991, Shenzhen announced plans for a "Hollywood Movie City," to be modelled after the Universal Studios parks in the United States which combine film studios with tourist centers. A joint venture between Shenzhen Film Enterprises, Shenzhen Nanshan Investment Co., and the American Picture and Television Image Technology Co., the park will occupy 3 sq km beside the Xili Lake Holiday Villas.

Another Shenzhen project, the Nanshan Global Movie Museum, also boasts an American partner. This joint venture between the Shenzhen Nanshan Cultural Enterprise Development Corp. and California-based Largo Vista is scheduled to have seven multimedia cinemas including IMAX and Circlevision 360-degree theaters, 3-D movies, and flight simulators. The interactive audiovisual center will also incorporate a wax museum of famous Chinese and international movie stars, and movie-making memorabilia.

Approximately 230 holiday resorts are now under development around China.

Several domestic movie studios have creatively adapted underused facilities to help generate revenues to subsidize other activities. The famous old Changchun Film Studio, known as the Manchurian Film Studio when China was under Japanese occupation in the 1930s, now offers guided tours of its production facilities and demonstrations of movie special effects. In 1993, an ambitious project got underway to turn a remote studio in Ningxia Province into the "Hollywood of Western China." The site of scenes in many famous Chinese films, including Zhang Yimou's *Red Sorghum*, the Zhenbeipu studio is developing a theme park, which will feature film sets and an exhibition center.

Chinese history and culture are also trendy concepts for amusement parks. In 1989, the Nine Dragon theme park, based on an ancient Chinese fable about an undersea god, opened in Beijing's northern suburbs. The Sino-Japanese funded theme park is located on and under a hydroelectric dam and features a mechanized car ride through a cavern where animatronic characters act out Chinese legends.

Other tourist parks—such as Beijing's World Park, Shenzhen's Miniature World, and Yangcun's Miniature Scenic Zone—feature models of famous Chinese monuments and buildings. China Minorities Village in Shenzhen and the planned China Nationalities Park in Beijing highlight the cultures of China's non-Han population. The Beijing project will feature a 45.2 ha garden that recreates famous scenic spots and 98 nationality villages.

Although Chinese tourists feel a strong connection to traditional Chinese themes, Disney, Universal Studios, and Warner Brothers also see a viable market for their well-known products. Both Disney and Warner Brothers have supplied programming to Chinese television stations, and both are trying to capitalize on their growing name recognition through merchandising and film distribution arrangements. Disney signed its first music licensing agreement in 1994 with the Shanghai Audio Visual Publishing House. Though none of these companies has yet announced a major theme park deal in China, it is likely that several will sign agreements in the not-distant future.

These projects, however, may be subject to different rules and standards than those already operating. Approval of

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theme parks and resorts has become controversial recently, reflecting a number of growing concerns in Beijing. Loss of agricultural land is one such worry, as existing resorts and theme parks have generally been conceived and approved at the local or provincial level, with little central coordination. Safety provisions in the new parks have also become a priority, following a number of recent accidents at theme parks.

In response to these concerns, the State Bureau of Technical Supervision, the Ministry of Construction, and four other government departments issued a new regulation on July 20 giving the central government greater control over the construction and operation of amusement parks. The new rules cover the design, manufacture, installation, and operation of high-speed rides. Government inspections of amusement parks will be carried out nationwide in the coming months.

Authorities in Beijing are also expected to issue guidelines that emphasize improving and renovating existing facilities rather than developing new sites, though projects that are "environmentally friendly" and promote new urban green space may also be approved.

Intellectual property problems

The dynamic growth of China's entertainment industry over the past few years, coupled with the prospect of explosive growth in the years to come, has brought many foreign companies knocking on Beijing's doors. While some of them have successfully negotiated joint-venture, licensing, or other arrangements, a large number have been frustrated by such market access barriers as non-transparent rules and regulations, high tariffs, import or production quotas, and other restrictions on foreign participation in various segments of the industry. Many of these concerns are being addressed by the Office of the US Trade Representative (USTR) in its discussions with China concerning implementation of the market access Memorandum of Understanding (MOU, *see The CBR*, November-December 1992, p.9) as well as in negotiations concerning China's services schedule for re-admission into the General Agreement on Tariffs and Trade (GATT).

USTR is also in the midst of a six-month investigation of China's intellectual property protection practices under the Section 301 provisions of the 1974 US Trade Act, after USTR Mickey Kantor citied China as a "priority foreign country" for intellectual property rights abuses on June 30. USTR's action is the result of pressure from US companies and trade groups, who claim that China has not lived up to its enforcement commitments under the Special 301 MOU signed in January 1992 (*see The CBR*, March-April 1992, p.9).

> Chinese piracy of US music and sound recordings, films and videos, and books cost US firms $505 million in lost revenues last year.

At Beijing's World Park *(Shijie Gongyuan)*, visitors may pose next to recreations of famous sights from around the globe.

Photo courtesy of Yang Zhibe

According to the International Intellectual Property Alliance, which is composed of eight trade associations that together represent over 1,500 companies producing and distributing copyrighted works, Chinese piracy of US music and sound recordings, films and videos, and books cost US firms $505 million in lost revenues last year. Though China has recently passed amendments to its criminal code that toughen penalties for copyright infringement and ruled in favor of The Walt Disney Co. in a landmark copyright infringement case, USTR is seeking more evidence that the new legislation will be implemented effectively and consistently. If USTR concludes that China has violated the MOU and not made significant progress toward improving protection of US intellectual property holders, it will impose sanctions on US imports of Chinese goods. [The CBR *will provide a full report on the USTR investigation in the November-December issue.*]

What next?

Despite these international pressures and commitments, China's priority for now is to allow its own enterprises to gain experience in order to be better able to compete with foreign firms in the future. However, the major entertainment reforms introduced in 1993—decentralization, revenue-sharing, and the end of State monopolies in several areas—pave the way for mergers and acquisitions throughout the industry. Several revenue-losing film studios have already been disbanded and new commercial radio and TV stations created as a result of the reforms.

For foreign investors the question isn't so much when to invest, but with whom. Chinese sectors throughout the economy are now being opened to foreign investment; some are just being opened more quickly than others. To position themselves for the long term, potential foreign investors in China's entertainment sectors should select joint-venture partners that have the flexibility to expand and change with worldwide trends in technology and business outlook. 完

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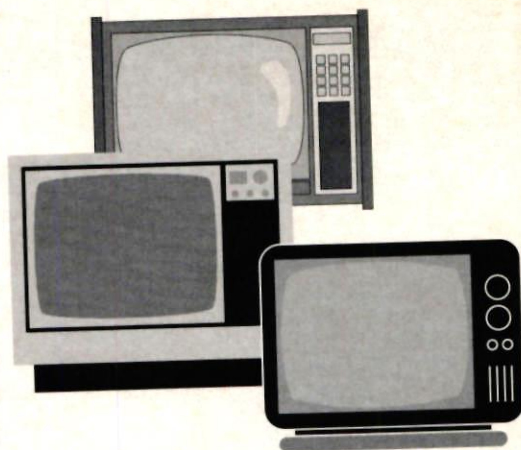
Cable Ready



■ Susan J. Schoenfeld

New networks are being approved left and right—but can foreigners participate in their operation?

■ Attorney Susan J. Schoenfeld is president of Advisors for International Media Asia and a visiting scholar at Hong Kong University's Center for Asian Studies Telecommunications Research Project. She wishes to acknowledge the invaluable assistance of Peter Lovelock, a PhD candidate in political science at Hong Kong University.

In China, a country with less than 2 percent telephone penetration, television reaches 81 of every 100 people; in urban areas television household penetration jumps to 95 percent. Beijing places no restrictions on the possession of televisions, and in 1993, some 900 million viewers put 200 million television sets to use. China is already the world's largest market based on viewing audience size.

Most of these viewers watch national or local broadcast stations, but in the future they will increasingly be watching cable. Cable is a viable conduit for future delivery of telecommunications and media services as well as multimedia and information technology to subscribers' homes. If government planners use cable-TV revenues to fund modernization of telecommunications systems, they could potentially shave $30 billion off China's communications infrastructure budget, according to Hong Kong's Wharf Cable. In theory, therefore, a multinational telecommunications, cable, or media group that enters China now to provide cable services should have a good chance of playing a significant role in the operation of Chinese telecommunications systems in the future.

Whether Beijing will take advantage of this technological convergence, or let foreigners play a role in cabling China, is very unclear, however. Chinese government sensitivity over the control of the broadcast media has resulted in many conflicting signals and statements over the past few years, making it difficult for foreign companies to break into the market. Currently, Chinese regulations prohibit foreigners from undertaking any equity investment in the development and operation of television systems, though reality seems to diverge from the rhetoric. Under such circumstances, foreign companies wishing to pursue options in the pay-TV arena must do so quietly. They must also realize that while the potential rewards are great, so are the risks.

Cable in China

Cable television is not new to China. In the 1960s and 1970s, State manufacturing enterprises set up their own rudimentary private cable systems as part of the benefit package for employees so that building residents could receive clear television reception. Workers' apartment buildings were snaked with coaxial cable linked to a master rooftop antenna.

These *danwei*, or work-unit, systems generally were not linked to each other, nor were they technologically compatible. Most charged a nominal subscription fee. In the early 1980s, the State Council approved a proposal that required all new buildings to be equipped with Master Access Television (MATV) to provide better reception and eliminate the overabundance of aerial antennas.

In 1988, local governments began to link together these small reception net-

works—each of which averaged about 400 subscribers, all residing in the same building—with coaxial cable and head-ends to create what is now referred to as an urban network. For the most part, these cable networks aired central and provincial television network programs, though pirated videos and other unauthorized programs also found their way onto the airwaves.

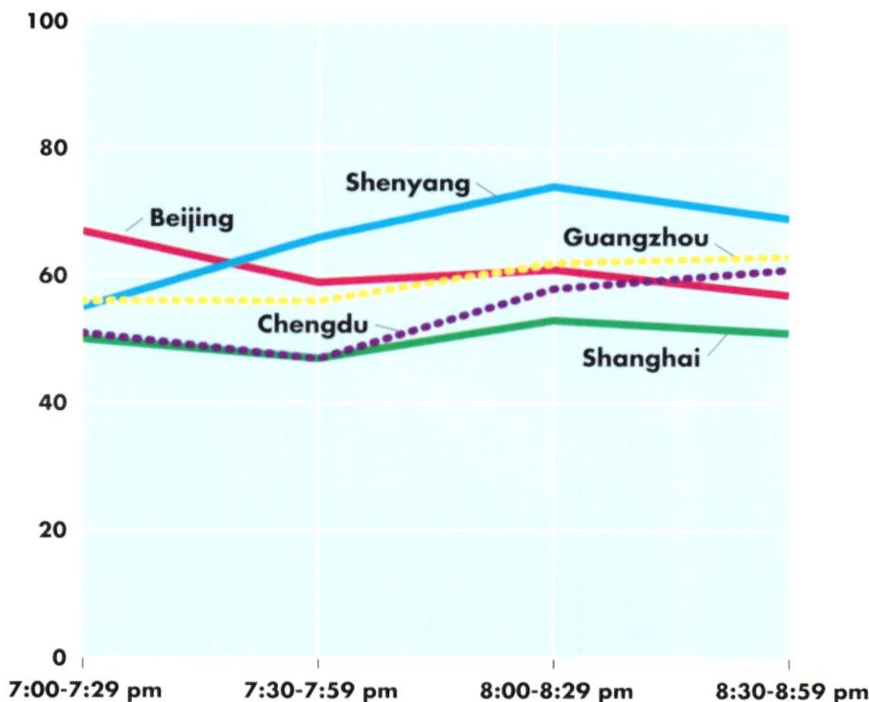
Imposing order

By the early 1990s, Beijing had grown increasingly concerned about the direction of the cable industry's development, for several reasons. First, though the government had adopted rules stipulating who could install and operate cable and satellite systems, many systems were being installed illegally, thereby denying the government subscription revenue and control over programming content. Second, Hong Kong-based Star TV began broadcasting unencrypted programs across Asia in 1991; for the first time, significant numbers of Chinese residents were able to receive direct, uncensored foreign programming. All one needed was a satellite dish—and people began buying them in droves. It was estimated in early 1994 that 600,000-1,000,000 satellite dishes were aimed at the skies over China.

> Despite regulations prohibiting foreigners from investing in cable systems, at least two firms have announced new projects.

Recognizing that cable television had expanded uncontrollably and illegally in India and Taiwan and eager to prevent similar problems from occurring in China, authorities in Beijing essentially adopted the "Singapore model" for the pay-TV industry. In Singapore, the government permitted development of a cable system in order to contain what it perceived to be an insatiable demand for television programming. A cable system was selected over direct broadcast satellite (DBS) feeds, because cable programming can be easily reviewed by authorities before being aired. Thus, the Singapore government could pre-screen programs, resolving its concerns over broadcast content.

Prime-Time TV Viewership in Major Chinese Cities



SOURCE: SRG China Media Index

* Aged 15 and older, based on a June 1994 survey of 500 people in each city

No foreigners allowed?

According to officials at the Ministry of Radio, Film, and Television (MRFT), which approved 661 cable TV licenses in 1993, every major city in China is slated to get a cable system. Rules governing overbuild (having two or more competing systems in one market) as well as just who has authority to award licenses are unclear, however, and different government authorities often authorize systems that impinge on one another.

These turf wars may have been the inspiration behind new MRFT regulations issued this April that prohibit foreign firms from investing in or operating cable systems in China. The announcement was originally made by the head of the Chengdu municipal cable network after Hong Kong's Wharf Cable began testing the cable system it had established as a joint venture with the Sichuan provincial network, the Chengdu station's competitor.

The Regulations for Cable TV Management also set guidelines for the construction, management, and financing of cable systems, and the acquisition of equipment, technology, and programming. Despite the unequivocal language of the regulations, it appears that they are not being interpreted stringently. Foreign firms that had already signed agreements, such as Wharf, quietly retain their interests in Chinese cable systems.

More surprising, at least two firms seem to be moving ahead on new projects. United International Holdings Asia claims to have received approval to establish a joint venture cable network in Hunan. Power Corp. of Canada, which already has stakes in several infrastructure projects with powerful local partners in China, has publicly announced negotiations to establish a cable joint venture in Beijing. Whether these proposals will translate into viable cable systems with a significant level of foreign involvement remains to be seen. In any event, the announcements demonstrate, yet again, that

the right connections in China, exercised at the right time, are essential to breaking into this sensitive sector.

Cable vs. satellite

The ban on foreign investment follows a similar directive aimed at halting satellite dish sales. In October 1993, MRFT reinforced and re-issued regulations prohibiting the private installation and use of satellite dishes in China. The regulations state that only those entities or individuals who receive special government approvals are permitted to install satellite reception equipment. Officials have since released additional regulations that require all satellite dish manufacturers to be capitalized with at least ¥1 million, in an effort by Beijing to exert greater control over the industry by choking off the smaller manufacturers that had emerged to fill the pre-prohibition demand.

Initially, the directive seemed to have the chilling effect on satellite sales the government wanted, but equipment distributors report that sales began to pick up in the second quarter of 1994. Technological advances are enabling manufacturers to produce smaller dishes, making it easier for owners to avoid detection. Furthermore, the People's Liberation Army (PLA), through its various commercial entities, is the largest manufacturer and distributor of satellite dishes in China, casting doubt on the government's desire or ability to restrict sales over the long term.

Several of the satellites beaming broadcast signals into China, moreover, are partially owned by Chinese entities (*see* list). AsiaSat I, for example, which carries not only CCTV but also Star TV, is one-third owned by China International Trust and Investment Corp. (CITIC). Given the clout of the PLA and other parties hurt by the government's edict, the restrictions on satellite dish production and sales will be extremely difficult to implement.

In any case, government officials seem willing to permit DBS in rural areas, as cable installation there would be difficult and costly and funding too hard to raise. The government also seems less concerned about uncensored, unencrypted programming going to rural areas, where residents are less likely to understand foreign-language news broadcasts or be able to afford expensive premium programming, which requires encryption equipment.

Urban networks

The story is different in the cities. Currently, most urban cable networks are 300 MHz and consist of 12 to 13 channels. They use largely domestic, low-quality technology, but their fees—installation generally costs $20-30 and monthly subscription charges run $1-3—are among the lowest in Asia. Due to their low cost, these systems are achiev-

TV Titans

A number of government ministries exercise control over different aspects of the television industry. In some cases, jurisdictions overlap, particularly when it comes to satellites—no organization is willing to abandon its claim to participate in the satellite industry, whether it be involved in design, manufacture, sale, or use of the equipment for broadcasting purposes. Below is list of the main players in the television industry and their primary roles.

The **Ministry of Radio, Film, and Television (MRFT)** regulates all aspects of the television industry. It collects the license fees it requires satellite-dish owners to pay to receive broadcast signals. Provincial and local MRFT bureaus are developing local cable TV projects under the guidance of the central office in Beijing,

The **Ministry of Posts and Telecommunications (MPT)** develops and licenses telecommunications networks, including telephone, fiber optic and coaxial cable, low- and high-baud computer modem, and audio and video transmission networks. Some local MPT bureaus are also involved in cable TV network projects.

The **Ministry of Electronics Industry (MEI)** develops and licenses electronic components for satellites, microwaves, VCRs, televisions, and computers. It is also beginning to branch out into areas traditionally under MPT control, such as satellite-based telecommunications networks.

The **China Aerospace Corp. (CASC)**, which was spun off from the former Ministry of Aeronautics and Astronautics in 1993, oversees development of China's space satellite industry. While foreign ownership of Chinese satellites is banned, CASC announced in February that it would open five satellite-related projects to foreign investment and cooperation, including one involving the manufacture of satellite receiving systems.

The **State Administration of Industry and Commerce (SAIC)** regulates the advertising industry, including broadcast ads. SAIC is also involved in the development and manufacture of microwave and satellite reception equipment.

The **People's Liberation Army (PLA)** develops, manufactures, and retails microwave and satellite receiving equipment. —*Lisa Atkinson*

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The urban networks face substantial problems, however, as they lack the financial and technical ability to produce significant amounts of programming, and need to fill their schedules. They have sought a way around these obstacles by entering into advertising barter deals with distributors of international programming (*see* p.29). Essentially a means of establishing relationships for the future, these deals nevertheless represent one of the few ways that foreigners have earned money from the Chinese market to date.

Another financial worry faced by the cable operators arises from the original configuration of the Chinese cable net-

Urban Cable Networks

To determine the feasibility of creating cable TV networks in diverse geographic regions, the Ministry of Radio, Film, and Television (MRFT) in 1991 established pilot cable TV networks in 10 cities throughout China. The corresponding provincial and municipal broadcasting bureaus administer the city-wide cable TV networks, which compete with the provincial and municipal TV and radio stations for State funding. The MRFT's basic aim in setting up the pilot program was to unify existing independent cable hook-ups into networks through which it could regulate programming, production, and broadcasting.

The 10 cities involved in the project were Beijing, Changsha, Chengdu, Fuzhou, Handan, Jinhua, Nanjing, Shenyang, Taiyuan, and Wuhan. At their first conference in 1991, the 10 cable TV networks formed the China Cable Network League (CCNL) to serve as an informal forum for the exchange of information. To address the lack of affordable, quality programming, the CCNL set up a cooperative program-sharing and purchasing system in which league members pool their funds to buy programming.

The 10-city experiment proved so successful in attracting subscribers, advertisers, and programming that MRFT expanded plans to integrate urban networks nationwide a year later. In 1993, MRFT granted licenses to 663 cable TV cable systems.

MRFT sets subscription prices for cable networks but allows some room for local price variations. The ministry is developing domestic decoders that will enable the cable-TV networks to offer premium services for higher subscription fees and cut off programming to non-subscribers. Many networks, such as the Beijing Cable Network (BCN), use a MRFT-preferred, multi-channel distribution system of wide frequency band, high-signal quality, and large-scale user capacity. Such systems can transmit up to 22 channels.

Foreigners technically are prohibited from owning any portion of Chinese cable TV networks, but many are participating in the sector through indirect investment and payback schemes. Some foreign companies, for instance, barter capital investment for advertising time or treat equity investments as "loans," which are paid back at interest rates calibrated to the profits booked by the domestic partner.

The big three

The networks in Beijing, Shanghai, and Tianjin, municipalities with large pools of well-heeled customers, have developed fastest. Here's a brief account of their operations.

■ Beijing In a 1991 BCN survey of the city's TV audience, more than half of those responding said they would be willing to pay for better television. By 1994, BCN was providing movie and news programs to 300,000 subscribers and specialty channels, such as ESPN Sports, to hotels. BCN has sought to acquire programming and equipment from abroad, and foreign programming agents such as US Dragon Entertainment have sold program packages to the network.

■ Tianjin The Tianjin Cable TV Network (TJCN) transmits cable programs through six downtown administrative districts and community distribution centers via optical cable and Satellite Master TV (SMATV) hookups, then retransmits to households via coaxial cable. A microwave system will be used to link the central station to outlying areas. Some districts and counties are already offering 11-12 channels to their residents. Central government-approved plans for Tianjin will enable the Tianjin Radio and TV Broadcasting Bureau to install 1 million reception terminals over the next 5-7 years, integrating existing city, district, and county cable stations.

■ Shanghai Shanghai Cable TV Network (SCN), China's largest cable system, began operation in December 1993. SCN currently transmits 12 channels to an estimated 700,000 viewers. SCN plans to spend $115 million over the next three years to build a city-wide, fiber-optic cable network to reach 2 million of Shanghai's 4.5 million households. It also plans to expand its system to 30 channels. Installation and subscription fees, coupled with funds from Chinese and foreign investors, are to cover the cost of expansion. Due to its size, the network is divided geographically into two administrative districts, Xuhui and Changning.

SCN is noteworthy as the first cross-ministry venture between MRFT and the Ministry of Posts and Telecommunications. The Shanghai Post and Telecommunications Bureau, working with Digital Precision System of Hong Kong, is responsible for technical maintenance of the network. The Shanghai Radio and TV Broadcasting Bureau supplies and manages programming for the network.

Each of China's 2,900 cities is slated to set up subscription cable television networks. According to MRFT, 10 percent of China's TVs are already hooked up. Because the lines that deliver television signals into homes may some day also carry data for as telephone, computer, and other subscriber services, foreign firms that get into the cable sector today should be well placed to participate in development of China's telecommunications industry tomorrow.

—*Lisa Atkinson*

works. Cable service must be offered to the entire block or small community or not at all, because no way yet exists to turn off individual connections. Chinese engineers are thus working furiously to develop decoders that can control the signal received by an individual TV set.

Some networks have decided not to wait for domestic decoders; Guangdong Cable, for example, has announced it will import them. Other operators are hiring "collectors" who ensure that subscribers pay their subscription fees. As fees are relatively low, authorities do not appear to object to this increasingly common—albeit extreme—practice.

Several of the municipal cable systems have grown into sizable operations (*see* box). The Shanghai network, for example, had 700,000 subscribers as of November 1993, and has the potential to reach 4.5 million viewers in the surrounding areas. The partners—the Shanghai MRFT and the municipal post and telecommunications bureau, however, still have not come to an agreement on how to share revenues, even though the system has been up and running since December 1993. This situation should serve as a warning to potential investors in Chinese cable systems—it is critical that foreign companies be comfortable and confident of their partner's intentions and hammer out all terms before committing to an investment.

Broadcast TV Satellites Beaming to China

Within 12 years, 50-80 satellites are expected to be beaming signals to Asia. Among them are:

Satellite	Investors	Launch Date
ApStar-1	China, Taiwan, Thailand, Singapore	July 1994
ApStar-2	China, Taiwan, Thailand, Singapore	December 1994*
AsiaSat1	China, Hong Kong, United Kingdom	April 1990 (not operational after 1996)
AsiaSat2	China, Hong Kong, United Kingdom	December 1994*
BS-3A	Japan	1989
Dongfang Hong (series 1,2,3)	China	1984, 1986, 1994
Globostar	Russia-based consortium	1995/96*
IntelSat 508(3)	International satellite consortium	March 1984
Palapa B2P	Indonesia	March 1987
Palapa B2R	Indonesia	April 1990
Palapa C-1	Indonesia	1995*
PanAmSat	USA	1995*
Rimsat-1	USA, Malaysia	November 1993
Stationar 12	Russia	1989
Thaicom 1	Thailand	December 1993
Unnamed	Malaysia	1995*
Unnamed KT-1	South Korea	1995*

* Expected
SOURCE: Lisa Atkinson

Proceed with caution

China's cable industry will likely continue to develop rapidly, but the future will remain murky. The rules are unclear to begin with, and their interpretation seems open for constant revision. Attitudes toward foreign investment are likely to remain inconsistent; foreign technology and finances are needed, but foreign participation in a critical, potentially lucrative sector will ruffle feathers and provoke sharp outbursts from the authorities from time to time.

For now, the technology and financial wherewithal that foreign participants can provide is very attractive to cash-poor Chinese networks. In addition, planners will welcome technological advances in cable that might engender broader communications advances at costs savings.

But companies wanting to enter China's subscription TV market may not be able to secure the kinds of guarantees they typically seek. While the continuing decentralization of the system provides opportunities for operators, deals must be crafted with local officials quietly and creatively. The wise investor does not head up to Beijing to demand what someone else already has; such an action might hurt his standing with Beijing and provoke authorities to overreact. To save face and demonstrate it has control over the industry, Beijing might crack down—on everybody. 完

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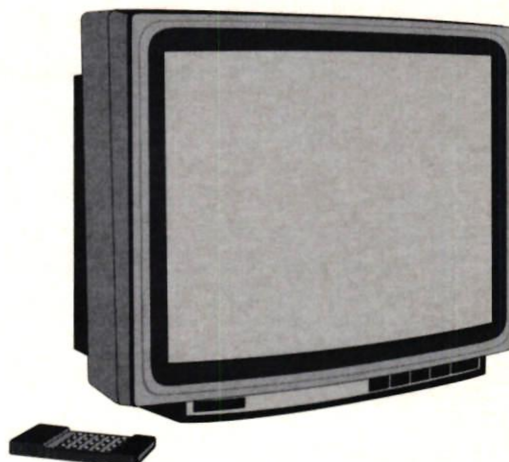


■ Lisa Atkinson

China's TV stations are rushing to fill a programming void

China is not a country known for scintillating television. Especially before 1979, the government-controlled networks sought to educate and enlighten the masses, rather than entertain them. But the power of market reform is being felt even in this realm of central control. While State-run China Central Television (CCTV) still puts out such TV series as *Fighting for Hegemonist Power*, advances in broadcasting, cable, and satellite technologies are widening the audience base and its viewing options.

These 800 million viewers are eager for novel and entertaining programming, forcing China's new television stations to seek quality shows that attract audiences and advertisers. Foreign suppliers and producers are eager to fill the broadcasting void. However, the Ministry of Radio, Film, and Television (MRFT), the government organization that oversees the industry, limits the amount of foreign programming Chinese stations may broadcast, as it wants to strengthen domestic production companies before allowing foreign competition. Thus, foreign producers looking to enter the Chinese market may find their strongest short-term prospects lie in the area of co-production with a Chinese TV station or production company.

On the air

China's first television broadcasts aired in 1958. In the first decades of the PRC, when State policy called for programs that projected a unified national identity, TV shows often featured wholesome vignettes of Chinese communities working together to build a new country. The State operated and funded all productions and station operations. Producers' only concern was to create programs that followed State policy. Foreign programming, acquired through barter deals with the Soviet Union, Hungary, Poland and East Germany, appeared on CCTV from the outset.

In 1982, the government replaced the Central Broadcasting Authority with the Ministry of Radio and Television, to give higher priority to development of the broadcasting industry. In 1986, the ministry absorbed the Ministry of Culture's Film Bureau, creating MRFT as it stands today. MRFT, under the direct control of the State Council, uses the State Council's national economic and cultural plans to create broadcast guidelines and to set policy for every aspect of the television industry. MRFT's CCTV is the State's national television station, producing and broadcasting on several channels its own programs as well as those produced by the State Education Commission, municipal and local TV stations, and foreign producers.

A parallel but separate entity, the Chinese Communist Party's Propaganda Department, reviews and provides input to MRFT. The Propaganda Department sets

■ Lisa Atkinson, a film and television producer and consultant, has worked extensively on US, Canadian, and Asian co-productions, integrating new digital multimedia and high-definition technology. From 1990-92, she served as the coordinator for radio, film, and television at the Canadian Embassy in Beijing.

broadcast standards, vets domestic scripts, and pre-screens foreign programs. Stations and producers are also expected to be self-policing, avoiding programs with violent, pornographic, or anti-government content.

In the first 20 years of the People's Republic, there were few television stations and virtually no local production. Stations outside the capital generally re-transmitted Beijing-based programming and many lacked the equipment to produce programs. In 1960, China had 29 TV stations; by 1978, only 9 more had been added.

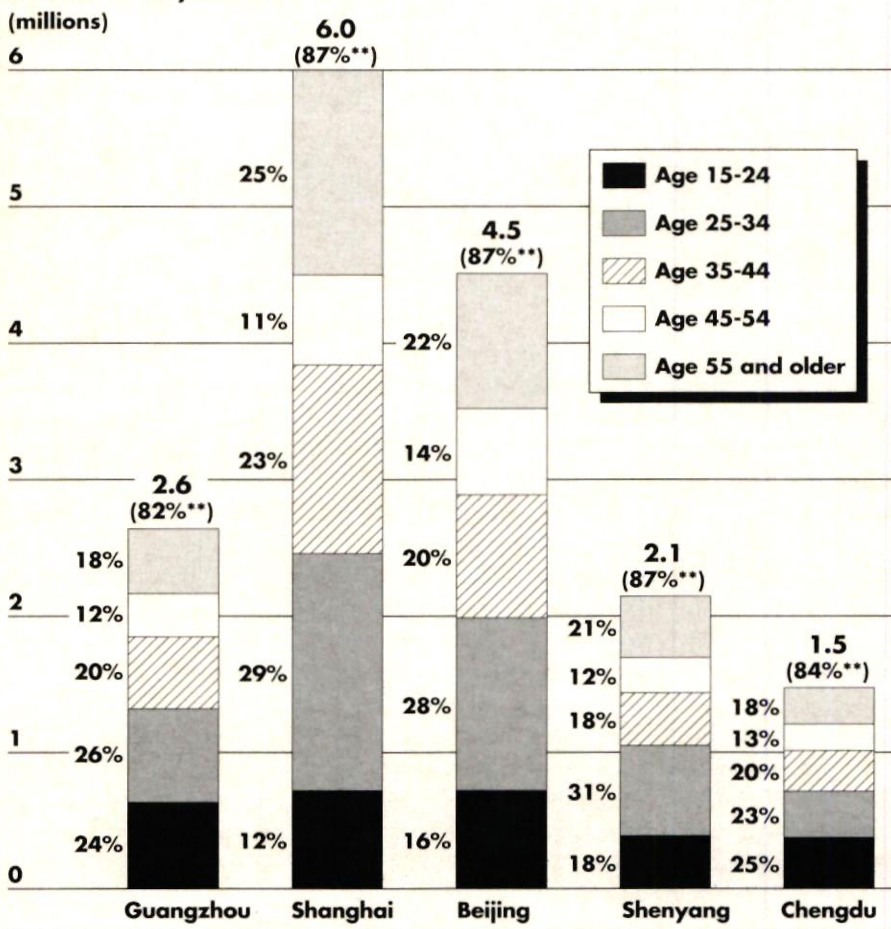
In the late 1980s, MRFT programming policy began to encourage provincial and local stations to cater to local viewers by producing programming that reflected local culture and dialect. Stations still received funding from local- and provincial-level broadcast bureaus, but were also able to tap into new funds from advertising, which was introduced in 1977. Local stations were also given permission to develop some of their own programming ideas, but were required to submit production scripts for central government approval.

TV stations pay producers for programming by giving them advertising slots the producers may sell to earn revenue.

As the industry began to shift from State to market dependence, cities scrambled to build their own TV stations. Between 1983-86, the number of stations jumped from 52 to 292. But low wages, a dearth of production equipment, and a lack of funds generally left station workers little incentive to improve programming and technology levels. In their intense competition for advertisers, TV stations in the late 1980s flooded the airwaves with more commercials than programs—and watched their audiences shrink.

Now, to improve program content, win viewers, and therefore, be able to raise ad rates, TV stations pay producers for programming by giving them advertising slots the producers may sell to earn revenue. As one immediate result, the popular domestic program *I Love You Definitely* (1992) generated ¥3.5 million in ad revenue for its producers. Financially inspired, domestic producers are stretching themselves to uncover and meet audience expectations.

Who's Watching TV in China



SOURCE: SRG China Media Index

* Aged 15 and older, based on a June 1994 survey of 500 people in each city

** Percent of total city population

Foreigners on screen

Foreign programming in the early days of Chinese TV consisted primarily of shows bartered from socialist allies and a few programs swapped with British and Japanese producers. From 1966-71, at the height of the Cultural Revolution, China suspended all foreign programming contracts. Afterward, foreign programming was sourced from foreign embassies, which would often provide government cultural and tourism promotion videos free of charge.

In 1985, CCTV, faced with capital and programming shortages, signed its first advertising/programming barter deal with a foreign company—CBS Broadcast International of the United States—to help it attract audiences and gain advertising revenue. Under the open-ended deal, CBS and CCTV executives meet each year to select 64 hours of CBS programming to be broadcast nationally on primetime Chinese television. For each hour of programming it provides, CBS receives five minutes of airtime to sell to foreign advertisers, who pay in foreign currency. The two partners split the ad revenues 50:50.

Since the first joint broadcast season in 1985, CBS has sold CCTV 400 hours of programming, including episodes of *60 Minutes*, *Dr. Quinn, Medicine Woman*, coverage of sports events, and a special on opera singer Luciano Pavarotti. The programs regularly top the Chinese ratings and CBS's landmark advertising barter scheme remains the model for foreign programming deals. In effect, CCTV has gained quality programs with no cash outlay, while CBS has gained prestige and exposure while avoiding currency conversion headaches.

Similar deals have since supplied Chinese TV with many foreign films, mini-series, and movies of the week produced by US companies such as Lorimar, Warner Brothers, Disney, 20th Century Fox, and Paramount. Canadian, Japanese, Singapore, and Hong Kong shows are also popular.

Now, some foreign firms, having gotten their feet wet in the China market, are trying to move beyond individual program sales to package deals and specialty channels, like the deal CBS struck with a Taiwan cable programmer. Under this agreement, the Taiwan company will buy program packages to be broadcast during primetime by several cable networks, in effect creating CBS programming blocks. The mainland has no precedent for such an arrangement, however, and such deals will not become reality until Chinese officials become more comfortable with expanding contract terms beyond traditional barter arrangements.

While CCTV has the means to buy or barter foreign programs itself, regional broadcasters form "program purchasing leagues" to pool funds to buy foreign TV programs. Foreign shows tend to attract the highest audience ratings and thus command higher ad rates than those charged for domestic shows.

Many foreign programming deals are struck at biennial broadcast trade shows. The most popular are the Sichuan International TV Festival, last held in September 1993, and the Shanghai International TV Festival, which will meet in October.

In the last few years, some foreign producers and program vendors have begun selling programming to China through program brokers, thereby avoiding China office, staff, and travel costs. US brokers, such as China Associates, Asian Television & Communications, and Dragon Entertainment, purchase programming rights from foreign producers or distributors, then resell the programs to Chinese purchasing leagues or individual stations in exchange for advertising slots or cash. Under such arrangements, producers forego any say over when and where their programs will be broadcast.

Reaping advertising revenue

The success of such advertising barter deals hinges on the desire of companies to market their goods and services to China's TV viewers—and that desire is strong and growing. Television advertising accounted for 22.4 percent of China's advertising volume in 1990; last year, it generated 36 percent of China's total advertising revenues of $1.5 billion. In 1993, CCTV and Shanghai TV raised ad rates 30 percent for foreign advertisers who pay in hard currency, and 100 percent-plus for joint-venture advertisers, who pay in *renminbi*. Some analysts predicted a 120 percent jump in fees for 1994, but competition from the channels on international satellites now broadcasting into China has caused the State Administration of Industry and Commerce (SAIC) to lower rates in the past few months.

In addition to setting prices, the SAIC regulates advertising content, length, and placement. TV advertisements typically run for 10, 15, or 30 seconds and are broadcast with other ads at the beginning and end of a show. On occasion, CCTV has tried to insert commercial breaks in the middle of programs, but with little success, as audiences generally proved hostile to the interruptions.

Recognizing that ad rates are directly linked to audience size, Chinese TV stations seek to maximize the number of broadcast hours devoted to well-received programming. US action and adventure series, such as *Hunter*, have proven especially popular. MRFT, however, is anxious to prevent foreign programs from dominating China's airwaves. Beginning in the 1980s, MRFT fixed the amount of foreign programming allowed on Chinese stations at 35 percent of total broadcast hours—the highest level in Asia. Most stations air the maximum allowable limit, which is not consistently enforced, and many have found ways to avoid the cap. MRFT rules also limit to about 50 percent

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the share of foreign programming that can come from any one country.

Fortunately for Chinese domestic producers, not all foreign programs are runaway hits. The CBS series *Beauty and the Beast*, for example, failed to convince Chinese viewers that a beautiful woman would be attracted to an ugly creature who lived underground.

Station owners and foreign and domestic programmers recognize that their viewing audience has grown more selective. All are now studying surveys and polls to determine what audiences want. Currently, domestically produced docudramas that explore real-life crises, in the mode of *A Current Affair*, are popular in China's major markets.

Working together

With MRFT quotas on foreign programming not likely to disappear soon, the most promising area of opportunity for foreign firms is co-production ventures. For one, TV shows, unlike films, are not subject to co-production quotas (*see* p.36). While general rules for co-productions have been on the books since the early 1950s, new guidelines aimed mostly at film production were enacted earlier this year. These rules give Chinese authorities the right to approve scenes in co-productions before they are shot and to approve the final edit of the completed productions before they are released for distribution. Directors and artists can revise the shooting script for artistic purposes during the production process, but the story cannot be altered substantially.

Foreign production companies cannot produce programming on their own in China. They must secure the sponsorship of a Chinese organization to smooth the way for clearing equipment through Customs, obtaining location permits, and gaining the local broadcast bureau's approval of the project. If the sponsoring organization is a local production bureau, it might have creative or financial involvement in the project beyond its sponsorship role. In many cases, the Chinese sponsor provides personnel, facilities, and equipment. The foreign and Chinese crews may have different approaches toward costs and labor, however, and "official" fees have been known to multiply arbitrarily.

MRFT officials express support for co-production deals and lure foreign companies with tax breaks and other inducements, such as discounts on lodging and location fees. MRFT now also allows foreign companies to strike deals directly with TV stations and production houses at the local and provincial levels. In a typical deal, the co-production's Chinese partner retains control of copyrights for the domestic market and negotiates a split for the foreign rights with the overseas partner.

Since 1990, digital production and post-production techniques have become more common.

TV for the '90s

In the next few years, MRFT will concentrate on improving domestic production. State enterprises involved in film, TV, and video production will be merged to increase economic efficiency. The new conglomerates will then have to swim or sink in the sea of free enterprise, as MRFT has stated it will no longer resuscitate revenue-losing TV studios.

MRFT will also try to improve programming by increasing domestic competition. Approximately 200 individual production houses are licensed to operate in China today, and more licenses will be issued. The TV drama departments at CCTV and municipal Shanghai television, for example, have become fiscally and creatively independent production companies that compete with their former parent companies. Another new company, founded by popular pulp-fiction novelist Wang Shuo, one of the writers of the highly successful *Stories from a Newsroom*, is already at work on a new series.

Improvements in program content should be matched by improvements in production quality. Since 1990, digital production and post-production techniques have become more common, especially among the cutting-edge independent advertising production companies. Sales of Sony professional broadcast equipment, for example, have jumped $10 million each year since 1988, topping $104 million in 1993. High-end customers are snatching up digital/analog components and BVW Betacam SP equipment, while low-end customers are buying PVW and U-matic equipment for video and audio production. Future tariff reductions will increase state-of-the-art equipment sales.

New money is joining the new equipment. Now able and anxious to make profits, Chinese producers are aggressively seeking independent financing. The Beijing TV Arts Center, an independent arm of Beijing Television, was able to use its established track record of producing popular, quality programming to obtain $1.5 million from the Bank of China to film *A Beijinger in New York* on location in the United States. The company also set up a production company in New York to attract international financing and sell programming to overseas networks such as Chicago-based American Asia Satellite Television Network (AATV), which in August 1993 began broadcasting Chinese-language programming 24 hours a day over the Americas. Other production companies are setting up similar arrangements.

Technology changes poised to transform television worldwide are not being ignored by China's planners. For example, over the next decade MRFT officials plan to introduce in China high-definition television (HDTV). HDTV systems broadcast digital signals, which carry more information and rarely break down the way current analog transmissions do. The result is a stronger, sharper television image. MRFT plans to set up a national center by the end of the year to research and coordinate HDTV production, post-production, and broadcast needs.

China's program producers are eager to utilize such new technologies to improve their production standards. Combine this drive to upgrade with audiences' constant demand for the novel and exciting and the result is a voracious market for programming and equipment. Despite centrally imposed restrictions, foreign firms can still find opportunities to produce and sell television programs in China's TV industry, which should open up further with time. 完

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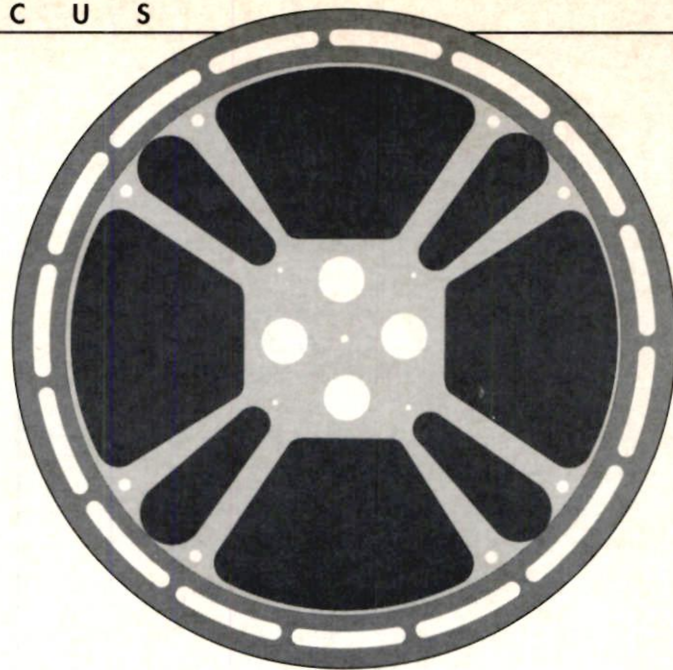

■ William Brent

China's struggling film industry is one of the last to undertake significant reforms

On May 31 this year, the Chinese government quietly issued a business license to the New Era Film Development Co., officially ending the State's 45-year monopoly over the movie industry. A privately owned firm, New Era was empowered by central authorities to produce, distribute, and exhibit films in China. The government's blessing of New Era is arguably the most important event for the PRC's film industry, which has long been a weapon for promoting "class struggle," since the Communists assumed power in 1949. New Era will provide State interests with their first direct competition from the private sector.

The aptly named New Era may in fact be a harbinger of a future in which money, rather than politics, is the bottom line in China's film business. But it is still far too early to speak of a privatized motion picture industry in China, much less a Chinese *Haolaiwu*, as Hollywood is known on the mainland. The New Era license, which also permits the company to own and operate its own cinema chain, is classified as an "experiment" and leading film authorities say that the market will remain more closed than open in the near term, despite the trend of economic liberalization currently sweeping the country.

Nevertheless, the relatively untapped film market on the mainland offers exciting possibilities for US entertainment companies possessing the patience and ability to negotiate the bureaucracy that ensnares the motion picture business. Industry officials estimate that there are 700 million occasional moviegoers in China; these viewers are familar with high-profile Hollywood productions, making US studios better positioned than their European counterparts to penetrate the market. But Hong Kong film interests, such as Golden Harvest, which have a better grasp of the Chinese film system and share the Chinese culture and language, are in the best position of any foreign competitor.

An industry on the edge

Despite the enormous size of the Chinese movie-going market, the survival of key players in the country's domestic film industry remains in doubt. Many of the 16 major State-owned film studios are teetering on the brink of bankruptcy and theater attendance has declined over the last decade—forcing at least 6,000 cinemas to close their doors last year. The slew of Chinese films that have won awards abroad and could considerably boost audience attendance rarely find their way to domestic screens, where B-grade kung fu movies and sleep-inducing epics like *Mao Zedong and His Son* are standard fare. Furthermore, the brisk trade in pirated video cassettes—the majority of which are brought into the mainland from neighboring Hong Kong—is

■ William Brent was Beijing correspondent for Agence France Presse from 1990-93 and is currently an independent consultant specializing in Chinese film and media.

keeping people out of the theaters and in front of their television sets.

"There are virtually no pure movie fans left in China today," laments Nam Deshan, manager of Beijing's Da Hua Cinema, blaming the decline on the inroads made by television, videos, and other forms of entertainment in China in recent years.

Members of China's film industry are growing increasingly vocal in their calls for reforms that could help them compete with these other mediums. Industry publications have recently devoted large chunks of space to the grumblings of cinema managers, distributors, studios, and directors. Reports *Popular Film Magazine*, "Studios are now saying that the film authorities want them to be roosters that wake up every morning and crow 'The East Is Red,' while at the same time being hens that lay their own eggs to live on." Though the government has taken some steps to open the market, most of the old problems remain.

China's film bureaucracy is still monolithic. The industry is controlled by the Ministry of Radio, Film, and Television (MRFT), which is directly under the State Council. Under the ministry are the China Film Import-Export Corp. (CFIEC), the sole authorized importer of foreign films, and the China Film Production Corp., through which all Sino-foreign co-productions must be brokered. The ministry's Film Bureau censors all domestic and Sino-foreign scripts and productions, removing any politically sensitive materials. If the Bureau cannot decide about the suitability of a particular project, the buck is passed to the Ministry of Culture or the Communist Party's Propaganda Department, as was the case with Chen Kaige's award-winning *Farewell My Concubine*.

Foreign investors, who could provide China's film industry with much needed financing and technical expertise, are prohibited from holding equity in any film-related company on the mainland—with the sole exception of New Era. Foreign imports and co-productions are also tightly controlled.

The root cause of the domestic industry's crisis, however, is neither censorship nor the ban on foreign investment—it is China's ossified distribution system, a legacy of Maoist State planning. Under this system, the China Film Distribution and Exhibition Corp. (CFDEC) was the sole distributor of domestic films in China, creating a heavy-handed monopoly that eradicated market competition.

In February 1993, MRFT announced reforms intended to overhaul the film distribution system. Distribution rights were devolved to the country's studios, which were allowed to deal directly with the 32 provincial-level distribution companies as well as cinemas. The disbanding of the all-powerful CFDEC at the central level was aimed at boosting the revenues of the studios and cinemas and reducing the country's 80,000-strong distribution bureaucracy, which in 1993 consumed 35-40 percent of all revenue generated by the industry. At the same time, State subsidies to studios were withdrawn and cinemas were allowed to set ticket prices according to the market.

The survival of key players in China's domestic film industry remains in doubt.

Unfortunately, the reform failed. The 32 provincial distribution companies quickly banded together and forced studios to sell their productions at a loss or face being locked out of the market. Instead of one overlord, the studios faced 32. Barraged by a wave of criticism and fearing the bankruptcy of the studios, MFRT now plans to allow hundreds of State-owned municipal-level companies to enter the distribution loop starting next year, according to industry sources. The injection of greater competition should help create a more mature market and allow Chinese studios to sell their movies at more rational prices.

Movies in search of an audience

Increased revenue for the studios should also help raise the quality of domestic films, which industry insiders, such as Nam the theater manager, cite as another major cause of the decline in the film industry. With more money and a growing pool of sophisticated filmmakers to draw from, Chinese studios would conceivably start making films that will fill cinema seats and fend off competition from other media.

Foreign studios, such as Warner Brothers, Disney, and Columbia Tri-Star, would love to pick up the slack in the meantime. But according to a recent article in the *Beijing Daily*, "The majority of moviegoers in China right now want to see actors with yellow skin and black hair acting out a Chinese story."

Many analysts, both foreign and Chinese, agree that the future of the Chinese film industry lies in providing quality Chinese-language motion pictures, not Hollywood productions. There is ample evidence to support this argument. For example, the low-cost Taiwan production *Mama, Love Me Again* had a record run of four months in China several years ago, while the handful of Hollywood blockbusters shown, such as *Robocop* and *Star Wars*, have met with a relatively poor reception. Chinese movie industry executives seek to convince the government that better local productions, which will come only with deeper reforms in the film distribution network, will edge out their foreign counterparts in the battle for market share.

Whither foreign films?

Despite the less than spectacular box office success of many foreign films in China to date, the CFIEC's July announcement that 10 "excellent" foreign films may be shown in China each year still sends a shudder through some members of the domestic film business. "Future competition will not be among ourselves, but with Hollywood," warns veteran director Xie Jin.

But Beijing clearly is not ready to throw the film industry's doors open to outsiders just yet. After a record 45 of China's 158 feature-length films were made with the backing of foreign movie companies last year, Beijing decided to limit Sino-foreign collaborations this year to 25. The reason: many co-productions were being distributed abroad and entered in foreign film festivals without the required official clearance. Beijing's ire resulted in the blacklisting of six young directors, including Tian Zhuangzhuang, who has received widespread acclaim abroad for such films as *The Blue Kite*. All

film-related companies in China are now forbidden from working with the six directors.

Aside from the limits on co-productions, CFIEC maintains an annual 60-film quota on imported foreign movies and a shoestring budget of only $1 million with which to buy all 60 films. China might also introduce higher import tariffs on foreign films, which essentially would price legal foreign copies out of the market.

These problems might be partially offset by reforms said to be in the works for 1995. Instead of handling distribution itself, CFIEC will sell distribution rights for foreign movies to the highest domestic bidder. The competition should generate revenue sufficient to enable CFIEC to import higher quality films, rather than the second- or third-rate movies it traditionally buys.

Perhaps the most crucial government decision affecting potential US investors in China's film industry is a three-point ban on foreign investment in State-run enterprises in the film industry. Announced in September 1993 by the head of the Communist Party's Propaganda Department, Ding Guangen, the ban prevents Chinese companies from establishing joint-venture cinemas, except for a few tightly controlled test cases. China's feature film studios are also prohibited from transferring shares to a foreign entity or forming joint-venture production companies. Finally, Chinese concerns are forbidden from setting up offshore film import-export companies with foreign partners. Motivated by political concerns, these restrictions violate both GATT and bilateral Sino-US market access parameters, and are being addressed by negotiators from the Office of the US Trade Representative (USTR).

The on-again, off-again nature of reform in the film sector is symbolic of the bind in which government authorities find themselves. Like other sectors of China's economy, the film industry is cash poor and without foreign capital it will be hard-pressed to survive. At the same time, for political and ideological reasons, authorities are unwilling to loose their powerful grip on the film industry. How this conflict will play out remains to be seen, but such steps as the approval of New Era and the reforms in the distribution system are encouraging signs. The removal of the conservative head of the MRFT earlier this year also bodes well for future reforms and seems to indicate that senior leaders recognize the importance of market forces in solving the film industry's crisis.

Given the contradictory signals of bans and liberalizations, how are Hollywood executives to interpret the jumble that is China's film industry? Certainly, China's massive market offers great promise. Even in the relatively slow business year of 1993, some 1.2 billion tickets were sold, bringing in ¥4 billion ($690 million at ¥5.8/$1) in revenue. If a deal is creatively put together, it is possible for US companies to skirt government restrictions.

Like any business transaction in China, this in part depends on a company's connections within the Chinese bureaucracy and in part on its ability to obtain accurate information on policy changes. New Era, which as a private firm will likely be more flexible in its business dealings than its State-owned counterparts, might be one avenue through which foreigners may enter the market. It may also be possible for foreign firms to invest in a cinema deal under the guise of a real estate venture, for which regulations are less rigid.

Frustration for foreign studios

One development that should help foreign film companies seeking to break into the China market is a venture between China Central Television and the Film Bureau, which together plan to launch a national cable movie channel once the East is Red 3 telecommunications satellite is in orbit, probably by early next year. Because the channel will show three movies a day, one of which will be foreign, it will need more than 1,000 feature films each year. Domestic films will not be made available to the channel for at least one year after their theater premieres, to ensure maximum box office receipts. With an estimated 30 million urban viewers, the channel, which will charge a subscription fee after a trial run, will provide a new market for foreign films.

Still, US film companies interested in the China market should be patient, if not

Sundance in the East

Sex, lies, and videotape in China? Maybe. This unusual independently produced American film, along with at least 20 others, is slated to be shown at the Sundance Film Festival in Beijing next April. The seven-day festival—the first program of American independent films in the PRC—will also feature several new films from the Beijing Film Academy, workshops and symposia on film production and aesthetics, and a scholarship for an emerging Chinese filmmaker to participate in Sundance Institute programs in Utah. The Sundance Institute, a US non-profit arts organization, is working with US film company Miracle Pictures, the Ministry of Radio, Film, and Television's Film Bureau, and the Beijing Film Academy to stage the event.

Organizers hope that the contacts made between the Chinese and American film communities at the festival will foster production and distribution of each country's independent films with the other. Other festival aims are to enhance the professional development of Chinese and American filmmakers and give the Chinese public a look at American life. Organizers are optimistic that success in April will encourage filmmakers in both countries to organize future festivals on a regular basis, possibly every two years or so.

Actor Robert Redford, founder of the Sundance Institute, will lead a delegation of independent US filmmakers to the festival's gala opening night. Over 50,000 Beijing residents, filmmakers, students, executives, officials, and foreign visitors are expected to participate in the week's activities. Each film is expected to be screened three or four times during the festival. CCTV plans to broadcast portions of the program, including interviews and discussions with filmmakers, nationwide. The festival's $600,000 price tag must be covered through sponsorship grants, and fundraising efforts are already well underway. Stay tuned.

—AAF

cautious, as several projects supposedly already inked have fallen through recently. For example, CFIEC signed a memorandum of understanding with Jameson Entertainment Group of the United States to build 500 cinemas and renovate another 300. When the deal was discovered by the Film Bureau, CFIEC head Wu Mengchen, who was not authorized to sign it in the first place, was forced to scrap the deal.

> Even in the relatively slow business year of 1993, some 1.2 billion tickets were sold, bringing in ¥4 billion ($690 million) in revenue.

Another deal reportedly in trouble involves a contract concluded between Paul Broadhead Interest USA, a cofounder of the major US cinema chain Cinemark; television production company Four Points Entertainment; and Asia Film Town, a cinema complex located in Changzhou, an industrial city in Jiangsu Province. Although the first phase of the project, which involves renovating Asia Film Town, is likely to go ahead, plans to build an additional 150-200 theaters over the next five years may never get off the ground, according to film authorities. Apparently the agreement, which was worked out with local governments, has met with disapproval from central leaders. Another joint venture between United Cinemas International, a Malaysian investor, and Shanghai's Paradise Film Co., has also collapsed.

Even those companies approved to enter the Chinese film market will have their work cut out earning a profit, at least until protection of intellectual property becomes more stringent in China. Currently, lax enforcement enables illegal copies of US films to enter the video market long before the films are shown in theaters. Though China has taken giant strides to strengthen its copyright protection laws and recently announced that egregious offenders would face stiff punishment, USTR is investigating China's intellectual property protection regime and may impose sanctions against Chinese exports to the United States if enforcement measures are not improved.

Eventually, a combination of outside pressure to open up and internal pressure from the struggling studios will push the Chinese government to reform the film industry further. But as with everything in China, changes takes time.

For the time being, American film companies interested in the China market should continue to lobby Beijing while searching out opportunities, such as cooperating with New Era. A trend toward privatization has already started to take hold in China, but the film industry will be one of the last sectors to change because of its ideological importance to the socialist government. 完

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Into the Big Leagues

■ Karina Lam

Foreign firms are eager to sponsor China's growing number of professional sporting events

Whether watching a tennis match in Beijing, a soccer tournament in Chengdu, or a regional athletic event such as the Asian Games, China's sports fans are becoming used to seeing their stadiums festooned with the names and logos of products ranging from Marlboro and Salem cigarettes to M&M candies. Sports sponsorship as a marketing tool is catching on quickly in China, especially among foreign companies, which reportedly spend millions of dollars on sporting events in order to promote their names.

Cleveland-based International Management Group (IMG), one of the pioneer agents of sports sponsorship in China, expects 1994 sponsorship money channeled to the PRC to jump more than 200 percent over last year's figures. The company predicts similar growth for 1995. As corporate interest in sports sponsorship grows, so will the number of events actively seeking backing, expanding even further sponsorship opportunities for interested companies.

From ping pong to the World Cup

The rise of corporate sponsorships closely mirrors Chinese athletes' growing participation in various international events. From the Olympics to the World Championship of Basketball, Chinese athletes are participating in more sporting competitions than ever before—and with spectacular results in such events as swimming, diving, and middle-distance running. The success of its athletes abroad is spurring China to develop professional leagues and competitions at home, where future generations can hone their skills and State sports organizations can earn revenue to train their athletes. Currently, national federations under the aegis of the State Sports Commission are responsible for developing major sports in China.

Soccer is the most popular sport both in terms of match attendance and TV viewership, followed by basketball, volleyball, badminton, and table-tennis. Soccer is the only sport with a professional league—other athletes are supported by State-run federations. While soccer is a prime TV attraction, other sporting events in China, such as badminton and table-tennis, also have commercial sponsors and enjoy both domestic and international media coverage.

Almost all professional soccer matches are televised. Some games are aired on China Central Television (CCTV), while others are shown on local networks, cable channels, or Star TV, which broadcasts to the entire Asian region. CCTV, China's central broadcast network, gets first choice of the five professional matches played each week. After CCTV makes its selection, the other stations and Transworld International, IMG's television production company, divide up coverage of the other matches. From its coverage

■ **Karina Lam, *The CBR*'s business manager, previously worked as a sports reporter and researcher at Hong Kong's Television Broadcasts Ltd. (TVB), for which she covered a number of sports events in China from 1983-88.**

of the weekly games, Transworld International produces a showcase match carried on Star TV. As TV stations and cable networks across North America, Europe, and China also air the Transworld matches, the total viewing audience for the games can be quite large.

Backing the team

Commercial sponsorship of sports in China started more than a decade ago. In 1977, two years before it re-entered the Chinese market, the Coca-Cola Co. sponsored a China national soccer team trip to the United States. Marlboro, another name frequently seen at sporting events in China, became active in 1979, when the company sponsored a tennis match featuring Jimmy Connors in Guangzhou.

Promoters arranged these events on an ad hoc basis, as China had no rules or regulations regarding sponsorship, or even an official supervisory body. To help promote sports sponsorship and ensure the success of sponsored competitions, the government formed the China Sports Service Co. (CSSC) in October 1979 to coordinate various aspects of the sports industry, including sports sponsorship.

In January 1994, the China Sports Advertising Corp. (CSAC), a non-profit organization that consults on sports science, industry, and commerce for China sports, took over CSSC's sports marketing functions. Both CSSC and CSAC are under the State Sports Committee. According to its president, Miao Shubao, CSAC's goal is "to act as an official marketing agent for the All-China Sports Federation [a non-government body] and its individual sports associations, promote China's sports through the staging and/or marketing of national and international events, and help clients both domestically and internationally to build image as well as promote their products in China."

> No set rules govern the pricing of sponsorships, which range in cost from $1,000-100,000, depending on the event.

Domestic companies, who make up the majority of CSAC's clientele, work through CSAC and local advertising agencies to arrange sponsorship deals. Foreign sponsors, in contrast, tend to rely on foreign advertising and sports promotion companies, such as IMG, Spectrum, and Proserv, to handle their sponsorship deals. Competition among local and international advertising agencies has become keener as company interest in sponsorship has grown.

According to Miao, CSAC aims "to stand on the top of all [sports sponsorship agencies in China]" and set up a strong nationwide network. From 1979-93, when CSAC was part of CSSC, the advertising group arranged sponsors for

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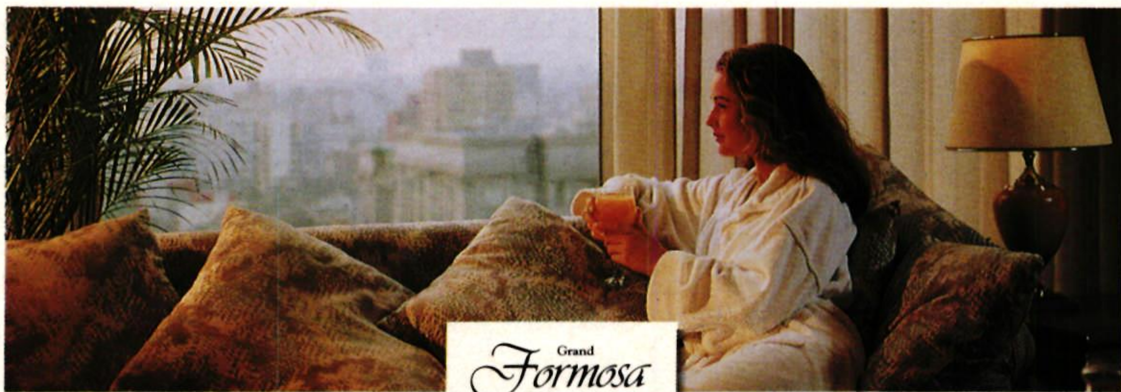

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about 600 sporting events. This year, CSAC expects to raise at least $10 million through sponsorships, which range in price from around $1,000-100,000.

The foreign role

For foreign companies interested in promoting their products in China, sports sponsorship is an attractive option. Although sponsorship costs are rising fast, they are still low compared to rates in Western countries.

Every sports sponsorship proposal, whether foreign or domestic, must be approved by the State Administration of Industry and Commerce (SAIC), the agency that regulates the advertising industry. No set rules govern the price of such sponsorships, as deals tend to be worked out on a case-by-case basis. National-level events tend to be negotiated with the central-level authorities, while smaller and local events are handled by provincial- or local-level officials.

In most cases the agent, whether CSAC or a foreign firm, will handle application procedures for a foreign sponsor. The SAIC has no special rules governing foreign sports sponsorships, but industry sources indicate that starting next year, SAIC will no longer allow cigarette advertisements to appear at sports venues. This decision could prove costly for some teams and events, as tobacco companies have been among the most enthusiastic sponsors of sports in China.

Opportunities for the asking

Local authorities now regularly approach the foreign business community for sponsorship. "It's a buyers' market right now," says Ben Tsang, group account director of Leo Burnett in Hong Kong. "I get numerous calls regularly from Chinese companies and sports organizations."

Until now, tobacco companies, which are banned from advertising in the Chinese media, have found sponsorship of sports events an effective way to market their products to China's large population. Though the logos and trademarks of tobacco companies may not directly appear on the program ID that flashes on screen for the first 3-5 seconds of a sportscast, their advertising slogans may be televised during event coverage. While it is too early to predict how the new rules restricting tobacco companies will be implemented, loopholes will likely be found to enable large companies to continue to sponsor events.

Sports promoters in China rely almost exclusively on sponsors and television rights for income.

US tobacco giant Philip Morris is one such company. Morris has found sponsoring China's professional soccer matches under the Marlboro label a satisfactory way to promote brand recognition. The company became the title sponsor of China's professional soccer league, now called the Marlboro Soccer League, when the Chinese Football Association began allowing such sponsorships this year. The league's local matches draw 15,000 fans on average, while millions more watch the contests on television. Marlboro is thus able to reach a huge audience each week.

Consumer product companies such as Coca-Cola are also involved in the sponsorship of Chinese athletes. For nine years the company has been running the "Coke-Go for Goal" program, which trains youth-league coaches in the latest soccer skills. "We hold FIFA [the international soccer federation]/Coca-Cola training courses almost every year in China," says B.C. Lo, external affairs manager of Coca-Cola China Ltd. Coke and its bottlers also organize many Coca-Cola Cup soccer tournaments in the 11 cities where Coke bottlers are located. In the next two years, Coke plans to build 10 more plants in China, and by 1996, expects to have 23 plants. The company, which already spends a "considerable amount" on soccer sponsorship in China, will sponsor more events as its presence in the country grows and will also branch into sponsorship of other sports.

The main problem facing potential foreign sponsors in China is the lack of regulation over the smaller, more localized sports events. Terms reached in sponsorship deals for these events cannot always be guaranteed, as foreign sponsors usually sign contracts with national sports governing bodies, even though local entities are responsible for implementing the deals. Sometimes the difficulty stems from the inadequacy of the local venues, which limit the variety of sponsorship formats. Some local arenas, for instance, may not be able to accommodate advertising billboards, while others have outdated sporting equipment.

CSAC hopes to improve the situation by strengthening coordination with its local offices and standardizing sports sponsorship deals. But IMG Managing Director for Southeast Asia Breck McCormack views these structural problems as endemic to developing countries, and believes the situation in China is improving. His concern as a promoter is the price of tickets for sports events. In China, as in many other developing countries, gate income is comparatively insignificant, as ticket prices are kept low to ensure they are within reach of the average fan. Therefore, sports promoters rely almost exclusively on sponsors and worldwide television rights for their income.

Going for gold

The money China raises through sponsorships is funneled into development of more professional leagues or efforts to raise the skill levels of local athletes. According to Miao, around 80 percent of the income CSAC earns this year will go—indirectly—to the sports associations involved in the deals. Over $1 million of Marlboro's title sponsorship deal with the soccer association will also go indirectly to the teams in the league.

In the long run, given the Chinese populace's increasing interest in athletic events, and the more aggressive marketing programs of both foreign and domestic manufacturers, all parties involved are anticipating tremendous demand for sports sponsorships. In the next few years, increased matchmaking between the agents and commercial sponsors will be the name of the game.

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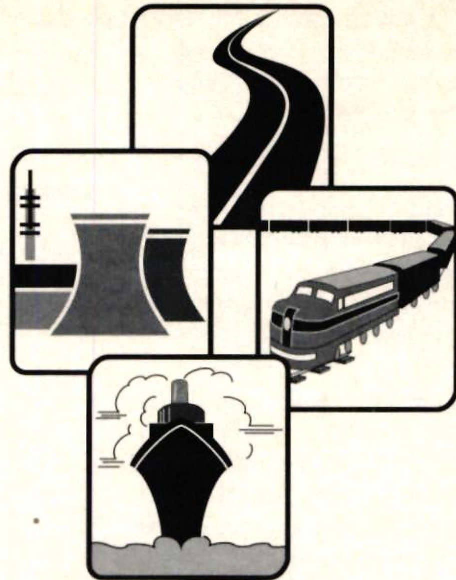
Infrastructure Investment Tips



■ Alexa C. Lam

Canny foreign investors can make these large-scale investments profitable

■ Alexa C. Lam, a partner in the Hong Kong law firm of Kao, Lee & Yip, specializes in investment in China's infrastructure, retail, commercial, banking, and manufacturing sectors.

China's ability to sustain double-digit economic growth is largely contingent on its capacity to upgrade its infrastructure. The country's dearth of good highways, its antiquated railroad and port facilities, and its over-stressed and accident-prone civil aviation system hamper trade and industrial growth at every turn. Electricity blackouts and a technology-starved telecommunications network further constrain Chinese economic growth.

Beijing, like the foreign companies trying to do business in China, is well aware of these many problems. Officials know that massive improvements in the transportation, communication, and energy sectors are needed if the PRC is to become a true global economic power. To expedite these changes, Beijing in the last few years has opened these sectors in varying degrees to foreign participation.

However, further market liberalization is necessary to convince foreign investors that they can earn returns on massive infrastructure investments. Current disincentives to foreign investors in infrastructure sectors include State-controlled prices of certain goods and commodities, prohibitions or restrictions on foreign investment in some areas, and foreign exchange balancing requirements and other hassles encountered once the projects are operational. Until Chinese officials address these problems, foreign interest in Chinese projects will remain high, but the amount of foreign capital actually invested will be far lower than needed.

Change doesn't come cheap

According to a recent survey conducted by Hong Kong-based Peregrine Brokerage Ltd., China will need at least $233 billion from 1994-2000 to modernize its transport, power, and telecommunications systems. Of this amount, $111 billion is needed just to develop the country's railways, highways, seaports, and airports to cope with the demands of the rapidly expanding Chinese economy. Modernizing China's power sector will require $66 billion and the country's telecommunications industry will need some $56 billion. One US analyst has suggested that a tally of all the infrastructure investment plans drawn up at the central, provincial, and local levels would likely exceed $600 billion by the end of the century.

Clearly, Beijing will not be able to provide such vast sums itself. China's success in developing its infrastructure will depend in large part on its ability to attract foreign investment to finance key projects. Even the Ministry of Post and Telecommunications, which has regularly stated that foreigners are not permitted to engage in the management or operation of China's telecommunications networks, announced in mid-May that it will need to acquire funds through local authorities, domestic borrowing, and overseas

China will need at least $233 billion from 1994-2000 to modernize its transport, power, and telecommunications systems.

sources if it is to meet its goal of $50 million in new telecom investment in the Ninth Five-Year Plan (1996-2000).

A door ajar

Such proclamations represent a major shift in official policy on foreign investment in infrastructure development. Traditionally, Beijing controlled construction and operation of all infrastructure sectors. Foreign investors were generally barred from participating in the construction of power plants, roads, and ports.

Beijing, recognizing that foreign capital was needed to augment State-allocated investment funds for purchases of advanced technology and equipment, began opening the door to foreign investment in infrastructure projects in the early 1990s. Since then, the railway, power, and communication ministries have each stated that they welcome foreign investment, including, in some cases, equity or cooperative joint ventures and even wholly foreign-owned enterprises.

However, no national-level legislation exists to guide infrastructure investment as a whole. The State Council is reportedly reviewing legislation that would standardize exactly what role foreign investors can play in infrastructure development, but it is not clear when these regulations will be promulgated.

The hard part

Simply finding investment opportunities in infrastructure sectors can be problematic. While Beijing has published lists of key infrastructure projects that will receive central funding despite the current austerity drive, information on projects at the local or provincial levels can be hard to come by. Many investors rely on specialized journals and economic bulletins for information on infrastructure projects, and make it a point to attend trade shows organized by Chinese ministries and provincial governments and held in China, Hong Kong, and other countries. For information on local or provincial-level projects, investors can also approach the local international trust and investment corporations or local development authorities.

Once they have identified a promising project, however, prospective foreign investors may run up against a number of barriers that limit their ability to pursue the opportunity. Some of these obstacles include:

■ **No foreign controlling interest** China has a clearly stated national policy that prohibits foreign investors from exclusive operation and control of infrastructure projects that closely affect the daily lives of the Chinese people. The Ministry of Power Industry, for instance, recently published provisions stipulating that with the exception of build-operate-transfer (BOT) projects, a foreign in-

Power Plants

China is in the midst of a major overhaul of its electric power generating network (*see The CBR*, November-December 1993, p.20). According to Ministry of Power Industry officials, China will need to add 17-20 new power plants each year to reach Beijing's goal of 300GW of generating capacity by the year 2000. Central, provincial, and local authorities are actively seeking direct foreign investment in the sector, though few projects have actually gotten off the ground.

Hong Kong investors, such as Consolidated Electric Power Asia Ltd. (CEPA), a special-purpose Hopewell group set up to invest in power projects in China and the Philippines, have the most experience in China's power industry to date. CEPA is responsible for the construction and operation of the Shajiao B Power Station in Guangdong Province. This $4.1 billion facility, with twin 350 MW coal-fired generation units, was completed in 1990. CEPA is also involved in the construction of the $1.8 billion Shajiao C Power Station, which has three 660 MW coal-fired units, as well as a $2.2 billion power plant in Shenzhen.

Other foreign investors view the construction of coal-fired power plants, particularly under the build-operate-transfer (BOT) model, with a dose of skepticism. They believe that what the Chinese authorities call a "usual" rate of return—around 12-15 percent for most projects—is too low (*see main text*).

Not all of China's power projects involve coal-fired plants. For years, Chinese officials have been talking about building a colossal and controversial hydropower facility on the Yangtze River. Approved by the National People's Congress in 1992, albeit with a record number of abstentions, the Three Gorges Dam project now appears to be moving ahead. Chinese officials estimate costs for the 17-year project at ¥50.09 billion in 1993 prices ($8.6 billion at last year's exchange rate), though critics of the dam claim the real costs could be much higher. In addition to power generation and transmission equipment, the project will require steel, cement, explosives, earth-moving equipment, and massive construction of new homes and factories to accommodate the 1.2 million people who will be displaced by the dam site and its 600-km long reservoir.

Preparatory work for the dam is now underway, including preliminary site preparation and road construction. Chinese officials hope to secure some international funding for the dam, but much of the project is to be financed through bond issues. The State-owned Gezhouba Power Plant Co., one of the entities managing the project, is to be converted into a stock company that will issue bonds both in China and abroad. —*Alexa Lam*

vestor generally is not permitted to take more than a 30 percent equity interest in a power plant, whether the foreign party is buying into an existing plant or entering into a joint venture with a Chinese partner to build/operate a new one. Similar restrictions exist with regard to foreign investments in ports and wharves. If forced to accept a minority interest, the foreign party may have no controlling say in the construction and operation of the project, making it difficult for the foreign entity to obtain financing for the investment.

■ **Limits on the rate of return on investment** Companies from Hong Kong and elsewhere have openly complained that the Chinese are seeking to set a cap of 12-15 percent on the rate of return—the maximum profit permitted each year, expressed as a percentage of total investment in a project—on foreign-invested infrastructure projects. Most companies believe this rate is too low, given the risks of investing in China. Hong Kong consortium Consolidated Electric Power Asia Ltd. (CEPA), for instance, has stated that it finds any rate of return under 18 percent for power plant investment unacceptable, given China's inflation problems and the probability of further devaluation of the *renminbi* (RMB).

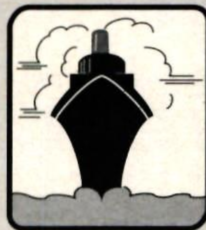
> The Chinese essentially dictate the rate of return through their control over prices of fuel, raw materials, and other inputs.

The Chinese essentially dictate the rate of return through their control over prices of fuel, raw materials, and other inputs. They also regulate a project's revenue stream as charges assessed for the venture's output must be approved by the government. There is little chance of the government allowing a venture to increase prices to exceed the rate of return outlined in the project negotiations.

Officials in Beijing claim that there is no set cap on the rate of return, which is established on a project-by-project basis. Power officials have stated publicly that returns higher than 15 percent will be allowed in remote interior regions where the incentive to invest is weaker. Moreover, Chinese officials note that foreign firms can effectively raise their rate of return by lowering project costs or their tax burdens. These officials also contend that preferential tax treatment, which allows infrastructure investors to collect a return on total investment—registered capital plus loans—yet allows them to deduct principal payments from taxable income, also facilitates a higher rate of return.

■ **Term limits** Different terms of operations apply to different types of infrastructure projects. The maximum term of a highway joint venture is generally 30 years, calculated from the date the joint venture is established, rather than the date

Ports



According to a recent study by Peregrine Brokerage Ltd., China plans to spend over $6 billion developing ports and waterways between 1994-2000. Options for foreign participation have been dramatically expanded in the past two years. Foreign firms can now invest and participate in the management of joint-venture wharves and ports and are permitted to set up wholly foreign-owned enterprises to build and operate special-purpose wharves and waterways. Foreign loans from Japan's Overseas Economic Cooperation Fund, the World Bank, and the Asian Development Bank have been obtained by the Chinese government for port and berth construction at Qinghuangdao, Dalian, Tianjin, Shijiazhuang, Shanghai, Ningbo, Lianyungang, Xiamen, and Guangzhou.

Between 1987-93, foreigners invested an estimated $230 million in port construction in China. In recent years, 90 percent of such investment has gone toward container wharf projects. A number of foreign companies that invested in real estate development, power plants, and manufacturing projects have been permitted to build special-purpose wharves to cater to the shipping needs of their mainline projects.

Future port projects include a container consolidation facility in Shanghai, to be built by Hong Kong's Hutchison Whampoa. The Hong Kong Wharf Group is looking into the construction and operation of a container port in Wuhan. A consortium of US, Philippine, and Hong Kong interests is setting up an equity joint-venture company with Guangzhou Huangpu Container Consolidation Co. to develop Guangzhou's Huangpu Container Consolidation Wharf. As Hong Kong now ranks as one of the world's most crowded container hubs, many shippers are casting their eyes on China's coastline, particularly since they expect China trade to pick up after the country accedes to the GATT.

In addition to coastal ports, China is looking to improve inland waterway transportation. The Yangtze River is a prime target, as it accounts for over 70 percent of total inland waterway freight tonnage. This sector of infrastructure investment may not prove so attractive to foreign investors, however, as the goods to be transported consist primarily of non-tariff items such as coal and building materials.

While the development of all modes of transportation is a high priority for Beijing, many analysts believe that highway and airport development take precedence over port and waterway projects. The reasoning behind this ordering is a logical one: China's most severe transport bottlenecks occur inland and in large cities, where poor road and air cargo facilities prevent goods from getting to the market.

—Alexa Lam

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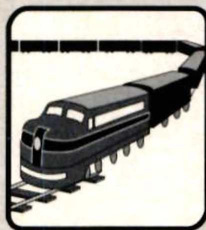
the highway is opened to the public. Coal-fired power plants are generally limited to 20 years, while hydroelectric plants are given 30 years. The rationale behind this policy is that since power plant and highway projects closely affect the livelihood of the Chinese people, foreign investors should be given a term long enough to entice them to invest, but not so long that they will not feel obliged to seek low operating costs and high efficiency.

As many infrastructure projects utilize the BOT structure, term limits can be problematic. Under the BOT model, a foreign investor entering into a cooperative joint venture contract with a Chinese party has the right not only to construct and operate the infrastructure facility but also to use the underlying land required for the facility and its operation. The local party is responsible for providing the land-use, construction, and operation rights and the foreign partner is responsible for coordinating the design, construction, and funding of the facility. In most cases, the funding consists of a mixture of equity contribution and project finance.

During the term of the contract, the cooperative joint venture company will have the sole right to operate the facility and collect tolls or charges. At the end of the cooperation period, however, all rights and assets of the joint-venture company, as well as the facility itself, are transferred to the local partner at no cost. Thus, the shorter the term of cooperation, the less attractive the BOT investment is to the foreign party. Some foreign investors in wharf and highway projects—which typically involve long construction periods—have successfully built into their contracts provisions permitting the joint-venture term to be extended in the event a project is not completed on schedule.

■ **Foreign exchange risks** As with any China project, foreign exchange problems can arise in infrastructure projects. Apart from a privileged few—such as the Daya Bay nuclear power plant, which sells part of its electricity to Hong Kong, and the Guangzhou-Shenzhen-Zhuhai superhighway, which collects tolls in Hong Kong dollars from Hong Kong vehicles—infrastructure facilities and utilities generally have no foreign exchange-generating capability. Prior to this year's foreign exchange reforms (*see* p.52), these projects could, at least in theory, resort to certain foreign exchange-balancing mechanisms, such as import substitution, to generate foreign exchange. Now, however, foreign investors in infrastructure projects are left

Railroads



China's railways carry 70 percent of the country's cargo and 60 percent of its passengers. According to government estimates, inadequate rail capacity costs the country nearly $2.7 billion annually—approximately .5 percent of China's GNP. Construction and upgrading of China's railways has therefore been listed as a top priority.

An article in the May 3 *Renmin Ribao* notes that Ministry of Railways (MOR) spent {Y}46 billion ($5.3 billion) from 1984-94 to lay more than 2,460 km of new track. Another official report suggests that the pace of railway construction is picking up, as the ministry spent {Y}12.11 billion ($1.4 billion) just in the first half of 1994 to lay 697 km of new lines and double-track another 621 km. Railway construction enterprises have been exhorted to use advanced technologies and import highly efficient machinery and equipment to speed up construction.

According to Peregrine Brokerage Ltd. estimates, over $48 billion will be spent between 1994-2000 on railway investment, with half of the funds going to construct new lines and double track and electrify existing ones. The rest will be spent on new equipment, including locomotive and terminal upgrades. Domestic funds will likely cover most of the total costs, but at least $2 billion in foreign funds will be solicited.

Coal transportation, which accounts for an estimated 40 percent of total railway tonnage, is being facilitated by a number of new railway lines. One line, running from Datong's coal mines to Qinhuangdao, China's major coal port, was completed in late 1992. A 586-km line will link Shenmu, Shanxi Province, to another Hebei port, Huanghua.

Construction of other lines for both passenger and freight use is already in progress, including the new, double-tracked Beijing-Kowloon line, which should be completed by the end of 1995. Several east-west and north-south routes are also slated for double-tracking, while others are to be electrified.

High on Beijing's wish list is a "bullet train" that would run between Beijing and Shanghai. The passenger-only train, which would cost an estimated $10 billion to build, would run at speeds averaging 250 km/hr and cut travel time between the two cities from the current 17 hours to 7 hours. The project's massive funding needs suggest that the government will have to make special concessions in order to acquire financing. Capital contributions for the bullet train are expected to come from large and medium-sized State enterprises along the route; railway ministries in Shanghai, Beijing, and Jinan; local governments; and foreign and local investors.

To attract foreign expertise and financing, MOR is considering permitting Sino-foreign joint ventures to develop station areas and land adjacent to the stations. The Ministry is also tentatively exploring eliminating price controls to let prices respond to market demand, rather than continue the present policy of artificially depressed user fees. These policies represent a radical move away from previous tight-fisted State control over the railway sector. With greater freedom to participate in railway development, foreign companies should be looking at providing the latest signalling and track-control equipment, and should also consider investing in the construction, operation, and management of railroads, stations, and land adjacent to the rail lines. *—Alexa Lam*

with only the swap centers as a means of repatriating hard currency profits.

China's currency is expected to devalue further against the dollar over the rest of the decade, exacerbating the risk that a foreign party may get back less than the amount it originally invested. This problem, though, can be quite easily overcome by denominating the foreign party's investment in dollars at a specific conversion rate and stipulating that repayment be made at the same rate, payable in dollars. If the foreign party has financial clout and indicates an interest in investing in other projects, the Chinese partners will likely be more amenable to such a request.

If the joint venture is able to raise RMB prices to compensate for any devaluation of the Chinese currency and subsequent conversion of RMB profits into hard currency, it should have no problem paying the foreign partner's share of profits. But the prices of some goods and services—including many in infrastructure sectors—remain under government control. Until such controls are lifted, foreign investors cannot assume that their infrastructure projects will have autonomy in setting prices. Developers of the Guangzhou-Zhuhai superhighway, for instance, had to apply to the authorities to increase the toll for Chinese-registered vehicles when the January 1 exchange rate unification devalued the RMB by 30 percent. Increases in utility charges also have to be worked out on a project-by-project basis, as Beijing is fearful that higher prices will exacerbate China's high inflation rate.

> Infrastructure facilities and utilities generally have no foreign exchange-generating capability.

■ **Tight credit** RMB loans have been in short supply in the past two years as Beijing continues its efforts to regain control over China's financial system. New restrictions on the use and retention of foreign exchange also make it difficult for projects to get necessary hard currency financing, as foreign banks worry that Chinese infrastructure projects may have difficulty servicing foreign exchange loans. The banks also balk at non-recourse financing (i.e., loans in which the foreign investor is not personally liable for the loan in the event of a default).

In previous years, the State Administration of Exchange Control (SAEC) permitted certain Chinese institutions to issue foreign exchange guarantees to foreign parties. Under such set-ups, the Chinese guarantor—usually a local entity—promised to use its own foreign exchange reserves to repay the foreign party's foreign currency obligations should the foreigner be unable to do so.

Roads

The development of China's highway system has become a high-priority, high-visibility goal. Beijing hopes to complete a highway network with two east-west routes (Shanghai-Chengdu and Korgas-Lianyugang) and two north-south routes (Beijing-Macao and Tongjiang-Sanya) by the year 2000. Sections of these roads will include superhighways (generally toll roads of 4-6 lanes), as well as 2-4 lane highways. Constructing this road network is expected to cost over $52 billion through the year 2000, not including substantial additional sums anticipated for trunk highways to be built between 2000-2030.

According to the Ministry of Communications (MOC), which is in charge of construction and maintenance of highways outside urban areas, a total of 12 national trunk highway systems covering approximately 30,000-35,000 km of high-grade highways will be built over the next 30 years. Few published statistics on the number of toll roads currently in operation in China are available, though many of these roads are concentrated in the Special Economic Zones. Sichuan, Heilongjiang, Jilin, and Shandong provinces have also been building toll roads to link their major cities.

Domestic funds are expected to cover most road development costs, largely though the maintenance fees collected for vehicle registrations. At the same time, the ministry is eager to attract foreign capital, particularly under the BOT model used to build Guangzhou-Zhuhai superhighway (*see The CBR*, January-February 1993, p.38). Tolls in China are generally collected in local currency, except on the Guangzhou-Zhuhai superhighway, which is allowed to collect Hong Kong dollars from Hong Kong-registered vehicles.

Ministry officials claim that because highway projects are prioritized under the State plan, foreign investors in these projects will be able to swap as much *renminbi* (RMB) for hard currency as they need. No government guarantees will be available for private investors, however, and RMB loans will be extended only to Chinese investors. The Bank of China and several local investment and trust corporations have reportedly earmarked funds to provide foreign exchange for a number of large construction projects.

The World Bank, along with China's State Development Bank (SDB), which began operating in April, has made long-term loans for road construction in the Northwest. While World Bank-funded projects are open to foreign bids, SDB loans are in RMB and are available only to Chinese entities.

According to the ministry, there is no upper limit on the rate of return on investment in highway projects. Profit margins for Chinese superhighway projects are difficult to estimate, however, as the foreign investor's profits are generated by toll collection and, in most cases, development of adjacent land. Highway projects in areas with rapidly rising real-estate prices, therefore, could end up more profitable than those involving higher road traffic.—*Alexa Lam*

Theoretically, such guarantees are still available, but in reality, they are now granted only in unusual circumstances.

Instead of a guarantee from a bank or financial institution, some foreign investors have requested—and accepted—promises from the relevant city government or local planning commission that the joint venture will be able to buy enough foreign exchange at the swap center to cover loan and interest repayments as well as the foreign party's profit share. Foreign bankers, however, are well aware that such guarantees are not authorized by the SAEC and even if they were, the backer is not likely to have ready access to foreign exchange. As a result, foreign banks are generally unwilling to lend against Chinese assets only.

To address this problem, Chinese authorities may encourage a foreign investor to invest its RMB earnings into another project capable of generating foreign exchange, giving the foreign RMB-investor further access to hard currency. This is a long-term and risky process, however, as the success of the second venture is not guaranteed and most Chinese enterprises seek investment in hard currency, not RMB.

Investor protection

Given these obstacles, investing in China's infrastructure development is not for the faint of heart. To counter the obvious drawbacks, foreign investors have so far resorted to a number of measures, some of which have proved more effective than others. In the case of power plants, for example, the critical step is for the project to secure an off-take contract whereby the local utility (often the project's Chinese partner) undertakes to buy all or a substantial portion of the project's total electricity output at an agreed price.

> Beijing will soon promulgate legislation that will standardize foreign investment in the construction of railroads, ports, and wharves.

Roads, railways, and ports, however, do not have the ability to secure off-take agreements. Therefore, foreign investors must try to negotiate with local officials for higher fee schedules if revenues are lower than originally projected.

In terms of getting the Chinese partner to agree to a price adjustment mechanism to compensate for inflation and fluctuations in the RMB exchange rate, some foreign investors have been more successful than others. In this regard, China's insatiable thirst for foreign capital to revitalize its infrastructure can often work in the foreign investor's favor. Some foreign investors, for example, have obtained commitments from local governments stipulating that in the event fuel costs exceed a maximum amount per tonne, the local government will subsidize the difference; the cap on operating expenses serves to safeguard the foreign investor's slim profit margin. Under a BOT scheme, however, the government has no immediate need to generate profits, and may therefore be unwilling to take on this risk.

Foreign investors should also pay close attention to other matters before committing to infrastructure projects. Dispute resolution procedures should be specified in the joint-venture contract, in the event that misunderstandings arise later on. In addition, foreign investors need to have a plan of action to cope with project risks, political risks, and faulty operation schedules.

Down the road

The central government has taken some important steps to support modernization of China's infrastructure. Beijing is raising debt in Japan and in other parts of Asia to fund infrastructure projects, and later this year, authorities are expected to promulgate provisional legislation that will standardize foreign investment in the construction of railroads, ports, and wharves. China is also planning to continue price reforms, which, though inflationary, may be necessary to attract further investment in the transportation sector.

The innovative foreign investor, for his part, can probably structure his overall compensation package to ensure a satisfactory return on investment. An investor in a highway project, for example, could obtain the right to develop the land alongside the highway to operate (or transfer to others the right to operate) gas stations, restaurants, and even shopping malls for the duration of the joint-venture contract. The Guangzhou Metro project was structured this way. An investor could even obtain compensatory land use rights—government-granted land use rights for a fixed price—for land slightly farther away, as it would become more valuable once the highway is completed.

If properly structured, income and profits from these ancillary activities could turn what would otherwise be a lackluster highway investment into a series of exciting investment opportunities. To overcome financing problems, an investor could also sell a slice of his investment to the numerous foreign-funded venture capital funds, which are hungry for all types of projects in China. Such activities should probably not be undertaken by the uninitiated, but in China, the savvy investor understands the need to be creative and flexible. 完

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■ **Lucille A. Barale and Thomas E. Jones**

New rules push FIEs to export more

On January 1 this year, the People's Bank of China (PBOC) initiated an extensive reform of China's foreign exchange system. The PBOC unified China's official and swap market exchange rates, announced the gradual withdrawal of foreign exchange certificates (FEC) from circulation, and made a number of other changes in the rules governing the use of foreign exchange. These new rules have changed the ways in which foreign exchange is reserved and used. For domestic enterprises, the right to retain foreign exchange revenues has largely been eliminated. For foreign-invested enterprises (FIEs), the rules for undertaking foreign exchange transactions have become stricter.

The relevant regulations governing these changes include the Announcement of the PBOC on Further Reform of China's Foreign Exchange System (December 29, 1993); the Provisional Regulations for the Administration of Foreign Exchange Settlement, Selling, and Payment (April 1, 1994); the Provisional Measures for the Administration of Foreign Exchange Accounts (April 1, 1994); and the Provisional Trading Rules of the China Foreign Exchange Trading Center (April 4, 1994). These rules will help China attain its long-term goal of making the *renminbi* (RMB) convertible. In the meantime, Beijing will rely on an exchange system that allows the RMB exchange rate to be determined, at least in part, by the forces of supply and demand. To this end, the PBOC has established the China Foreign Exchange Trading Center (CFETC), which coordinates RMB transactions nationwide according to standardized rules.

A unified rate

Foreign investors immediately felt the impact of the January 1 elimination of the two-tiered exchange rate. The PBOC hiked the official foreign exchange rate from ¥5.7/$1 to the going swap market rate to create a "managed floating exchange rate" of approximately ¥8.7/$1. As a result, foreign investors entering new projects in China are now ensured that the value of their investment is assessed consistently with that of their Chinese partners, as Chinese regulations require that capital contributions be valued according to the official exchange rate. In the past, the discrepancy between the official and swap market rates resulted in the undervaluing of foreign investors' hard currency contributions, indirectly giving the Chinese investor a premium on its in-kind or RMB-denominated investment.

The unified rate has also eliminated the need for existing FIEs to search for extraordinary methods to make RMB and hard currency assets equal in value for capital contribution purposes, and enables foreign investors to use the going rate—currently around ¥8.7/$1—when making their investments and when repatriating profits. Before, foreign investors lost money when repatriating profits at the swap rate.

The switch to the unified rate was not entirely beneficial, however. The 50 per-

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cent devaluation of the RMB led most producers of goods and services with foreign inputs to raise their RMB prices, supposedly to cover increased costs. Hotels, foreign labor-service companies, Chinese airlines, freight forwarders, and long-distance telephone companies all increased their prices.

Foreign companies exporting to China saw their goods become much more expensive after the exchange rate unification. This result, however, was part of Beijing's rationale for undertaking the devaluation. It appears that the government's desire to slow imports and fuel export growth and foreign exchange earnings is being met, as China's foreign exchange reserves have risen by over 50 percent since the beginning of the year. The new, more accurate exchange rate, moreover, should also reduce China's exposure to dumping charges, as the RMB value of Chinese goods has now increased.

Unlike the exchange rate unification, the elimination of the FEC does not seem to have caused anyone much inconvenience. FEC remain legal tender for the time being and can be used for general purchases or exchanged for RMB or dollars at the ¥5.7/$1 rate.

New foreign currency trading rules

Beijing's move to a "market" exchange rate was accompanied by announcements that swap centers would be phased out and all future foreign exchange transactions would be conducted through an interbank foreign exchange trading market that would operate by a standard set of rules nationwide. Chinese authorities stated that this move was necessary to develop a national exchange rate. In the past, swap centers operated on a local basis, making it impossible to come up with a single, market-derived foreign exchange rate.

The new body, CFETC, was established in Shanghai and consists of an interbank foreign exchange trading market as well as a foreign exchange swap market, to which only FIEs have access. The Center, which began trading in early April, currently has 249 members—138 domestic banks (including head offices and branches), 73 financial institutions with foreign capital (i.e., foreign and Sino-foreign joint-venture banks), and 38

Opening a Foreign Exchange Account

Since this spring, new rules governing the establishment of foreign exchange bank accounts have been in effect in China. The Provisional Regulations for the Administration of Foreign Exchange Settlement, Sales, and Payments and the Provisional Measures for the Administration of Foreign Exchange Accounts, both implemented by the State Administration of Exchange Control (SAEC) on April 1, detail how foreign-invested enterprises (FIEs) may open foreign exchange accounts.

Previously, an FIE could establish a foreign exchange account after receiving a business license from the State Administration of Industry and Commerce (SAIC) or its local branch. But now an FIE must first apply to the SAEC to obtain a "Foreign Investment Enterprise Foreign Exchange Registration Certificate" (*waishang touzi qiye waihui dengjizheng*). Only after obtaining this certificate, known as a FERC, may the FIE open a foreign exchange account. FIEs in existence prior to the issuance of the new rules must also apply to obtain a FERC. Without a FERC, an FIE would ultimately be denied access to the swap centers.

To obtain a FERC, an FIE must give the SAEC evidence of its legal existence, assets, and the purpose of the desired foreign exchange account. This requires submitting copies of the joint-venture contract and articles of association, the business license issued by the SAIC, and an Investment Verification Report issued by a certified public accountant registered in China. FIEs established after January 1, 1994 must also submit an opinion from the SAEC on the enterprise's ability to balance foreign exchange.

Before issuing the FERC, the SAEC will examine whether all capital contributions have been made in accordance with the terms of the joint-venture contract. For new ventures this means that some capital will have to be invested before the foreign exchange account can be opened. In this regard, the Provisional Measures now allow the foreign investor to remit its capital contribution into a bank account in China opened under the investor's own name for later transfer into the FIE's bank account.

A foreign representative office that seeks to open a foreign exchange account should submit both the approval document for the office's establishment and its SAIC registration certificate.

Each type of foreign exchange account has a strictly defined scope of use. When an FIE opens a foreign exchange account in an authorized bank, the bank will fill in on the FERC the name of the bank, the account number, the parameters of receipt and payment permitted in the account, and other information. According to the new rules, the bank must examine each payment into or out of the foreign exchange account to determine whether it fits within the stipulated scope of the account, and must report this information to the SAEC on a monthly basis.

The SAEC is empowered to inspect the account's transactions and monitor the actions of the bank. Depending on the circumstances, it may also issue warnings, impose fines on the bank or the account holder, or cancel accounts when the new rules are not followed. The FERC, which is valid for one year, may be renewed after an annual inspection conducted by the SAEC. If the FERC is not renewed, the SAEC may contact the FIE's bank and demand the closure of the FIE's foreign exchange account.

The FERC permits the FIE to maintain its foreign exchange account and also plays a part in deciding whether the FIE will be granted access to the swap centers. By referencing the account number on the FERC, a swap center can determine whether the enterprise has utilized all of the funds in its foreign currency account, a prerequisite for an FIE's use of the swap center.

—Lucille A. Barale and Thomas E. Jones

non-bank financial institutions such as international trust and investment corporations (ITICs). While the Center used the swap market rate as its initial reference point, it now sets the daily exchange rate with reference to the weighted average of the previous day's transaction prices. The PBOC has the power to intervene to support the exchange rate if it deems such action necessary.

According to PBOC officials, the Center is linked by a sophisticated telecommunications network to all of China's swap centers. Reports from companies in several cities, as well as from World Bank and International Monetary Fund officials, however suggest that some swap centers are not yet linked to the CFETC. Currently, the CFETC trades in both US and Hong Kong dollars, with trading in Japanese yen and deutsche marks expected to commence later this year. The Center handles three types of transactions: those between customers and member banks; those among member banks; and those between the PBOC and certain approved member banks.

At present, the domestic members of the center have the broadest scope of foreign exchange activity because they can conduct foreign exchange settlement business as well as trade foreign exchange on the interbank market for their own account or on a commission basis for FIEs. Foreign bank members are permitted to handle foreign exchange settlement business for their domestic account holders and then sell, through the Center, the foreign exchange received, but they cannot directly purchase foreign exchange from the Center. These institutions also are prohibited from selling foreign exchange to their domestic account holders.

> FIEs may still retain foreign exchange and conduct transactions through the local swap centers.

Most domestic enterprises must convert any foreign exchange earnings into RMB for deposit into a RMB account at a bank authorized to settle foreign exchange transactions. The enterprise must obtain the SAEC's permission to open an account at such a bank. When the enterprise needs foreign currency, it may buy foreign exchange directly from the bank, which trades RMB to the CFETC for foreign currency. Before it can purchase any foreign exchange, however, the enterprise must present the necessary documentation, showing, for example, that it has an immediate need for foreign exchange and that it has obtained all the necessary supporting documents, such as import contracts and import licenses.

The enterprise may sometimes open a special-purpose foreign exchange account for repayment of a foreign currency loan. In this case, the amount and timing of repayments are approved by the SAEC, and verified by the bank before each payment. If funds in the account are insufficient, the required foreign exchange can be purchased in accordance with the repayment dates and amounts specified in the contract. For early repayment of interest and principal on foreign loans, purchase and remittance abroad of foreign exchange would be possible only with separate SAEC approval.

Unlike domestic enterprises, FIEs are not compelled to convert foreign exchange revenues into RMB. Instead, FIEs still conduct their transaction business through the local swap centers, where they can exchange currency with other FIEs. In cities connected to the foreign exchange trading center in Shanghai, the swap centers have been renamed branches of the CFETC.

These local foreign exchange trading centers carry out both interbank foreign exchange trading market and swap market functions. At most branches, working staff and equipment for the two functions are the same, but each market caters to different customers. FIEs may commission any member of the Center to buy and sell foreign exchange on their behalf through telecommunications link-ups to the branches' swap markets. In practice, the FIE now goes to the bank or other authorized institution to request a foreign exchange transaction, then goes to the swap center for an official approval or "chop," which it takes back to the bank to complete the transaction.

Given that the recently issued Trading Rules of the China Foreign Exchange Trading Center state that the Center is to encompass both the interbank and swap markets and that a regulation governing access to the swap markets is still in the drafting stage, the swap centers will likely continue to function for the near term. In effect, the swap centers act as brokers for the interbank

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market, and do not operate as a separate market. Officials in Beijing state that eventually all swap centers will be unified with the national foreign exchange trading center and cease to function separately.

Obtaining swap market access

Aside from specifying in which institutions foreign firms may open foreign exchange accounts, new rules also detail strict procedures for establishing such accounts. Two regulations implemented by the SAEC in April now require an FIE to obtain an SAEC "Foreign Investment Enterprise Foreign Exchange Registration Certificate" (FERC) before opening a foreign exchange bank account (*see p.*53). Such accounts would typically be used by FIEs to receive income from export sales and to receive foreign currency loans and capital contributions from abroad, and would be debited to pay out profits to foreign investors, royalties to foreign licensors, interest and principal to banks, salaries to expatriates, and fees to foreign suppliers.

The new foreign exchange account registration system allows the SAEC to monitor FIE foreign exchange transactions through monthly reports that banks must submit to the SAEC. The SAEC is also considering a registration system for all FIEs seeking to use the swap centers, which would create yet another layer of bureaucracy for FIEs doing business in China.

Payments from these accounts would continue to be subject to long-standing requirements mandating supervision by the banks, which report transactions to the SAEC. For payments for imports, the SAEC has recently issued "Provisional Regulations for Foreign Exchange Payment, Verification, and Clearance Procedures for Imports," effective August 1, 1994, setting out uniform procedures to be followed by all designated foreign exchange banks. The new rules apply to both domestic enterprises and FIEs. A uniform SAEC "Import Payment and Verification/Clearance Form" must now be filled out in accordance with bank procedures. It will be "cleared" upon verification that the payment was properly used to pay for the imports (either at time of payment in the case of letters of credit, for example, or later, in the case of advance payment).

After an FIE obtains its FERC, it must then undergo an SAEC swap market "access qualification review" each year. Under present plans, the SAEC reviews the FIE's application and assesses whether the FIE's production fits China's overall industrial policy; i.e., whether the production process is encouraged, permitted, restricted, or prohibited by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and the State Planning Commission. Presumably, the SAEC will favor the applications of industries encouraged or permitted by the State. The foreign partner should also show that it has paid registered capital into the FIE in accordance with the terms of its approved joint-venture contract.

Although the rules have not been finalized, the SAEC intends to examine whether the venture is exporting the quantity of products stated in its contract, and whether the venture has achieved in a timely manner the degree of localization of production specified in the contract. While the SAEC has explicitly indicated it will examine these specific matters, other contractual points may also be scrutinized. Foreign investors must therefore be careful to avoid making explicit commitments in their contracts if they are uncertain whether such commitments can be fulfilled.

A joint venture that has received its FERC, passed the "access qualification review," and fully utilized the foreign exchange in its foreign exchange account should have unrestricted access to foreign exchange through the swap centers for the rest of that year. All currency swaps must be approved by the official centers; individual or privately arranged swaps are not permitted.

A foreign venture that fails to obtain a FERC theoretically would not have access to the swap centers. An FIE that obtains its FERC but does not pass the "access qualification review" either initially or in a later year may still apply to the SAEC for access to the swap center on a transaction-by-transaction basis. In such cases, the SAEC will likely take into consideration the extent to which the FIE has met its export, localization, and other contract commitments.

To obtain the FERC or undergo the "access qualification review," an FIE should approach the SAEC at the level at which the FIE was originally approved. That is, a project approved at the local level will be reviewed by the local branch of the SAEC, while a project approved by MOFTEC headquarters in Beijing will make its application to the SAEC in Beijing. The rules apply to existing and new FIEs alike.

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How these new measures will affect the willingness of foreign banks to lend to FIEs remains to be seen. Clearly, the fact that the swap center access review gives FIEs access to the centers only on an annual basis—leaving open the possibility that subsequent access will be denied or restricted—will be of concern to bankers considering lending to projects on a long-term basis. The ability of investors to repatriate profits will also be called into question. Similarly, licensors of technology and suppliers of equipment to FIEs will be concerned about the FIE's ability to pay royalties and make payments for procurement. It is unclear what kind of assurances would allow banks to extend credit to infrastructure projects that have no ready access to foreign currency apart from the swap centers.

Scrutinizing new FIEs

Aside from playing a more active role in determining access to the swap centers, the SAEC may become more involved in the approval process for start-up FIEs. According to the new regulation being drafted on swap market access, the SAEC will review FIE feasibility studies after the relevant planning commission has done so. Based on its review of the project's capacity to generate foreign exchange, the SAEC will then issue an opinion (*waihui pingheng shencha yijian*) as to whether the proposed FIE has the capacity to balance its foreign exchange revenues and expenditures.

The State or local planning commission will take this opinion into account when deciding whether to approve the project. Enterprises engaged in infrastructure and other projects encouraged by the State may have preference in obtaining such approval over other enterprises. Consumer goods manufacturers targeting the domestic market, in contrast, may find it harder to get approval. At this point, however, it is too early to tell if this added scrutiny over FIE activity represents a real change in policy.

Tightening up

The PBOC's January 1 announcement on new, stricter rules concerning FIE foreign exchange balancing also removed an important balancing mechanism utilized by many FIEs over the years—selling products in China for hard currency, with or without import substitution status, which was also eliminated. The prohibition against selling for hard currency, which is not being implemented uniformly, will have a major impact on the way joint ventures are both planned and operated. For FIEs currently producing cars, computers, photocopiers or even pharmaceuticals with foreign-sourced kits, components, or ingredients, the loss of hard-currency domestic sales necessitates finding new methods for generating foreign exchange.

Essentially, the abolition of foreign exchange sales is yet one more method through which Chinese authorities have increased pressure on FIEs to export their output. In theory, FIEs can still purchase with local currency products made by other enterprises and export them. This method, however, has always been difficult to implement, as firms find it difficult to source products of export quality and must apply annually to MOFTEC to export specified volumes of products.

In some respects, Beijing's effort to impose more uniform rules regarding foreign exchange transactions seems to have improved the short-term situation for FIEs. Since the new changes were implemented, liquidity at the swap markets has been good and foreign companies report few difficulties accessing the centers. In the past, foreign exchange often was in short supply and authorities had to impose tight controls on currency swaps.

Over the longer term, although China's new foreign exchange rules were issued as part of a broad effort to liberalize and reform the country's financial system, they in fact impose greater central government control over access to foreign exchange by both foreign and domestic parties. If China genuinely plans to make the RMB convertible and render the country's banking and currency system more compatible with the GATT, changes to the rules under which Chinese domestic and FIEs operate are inevitable. In the meantime, the added government scrutiny over critical financial transactions may complicate the already difficult task of making and maintaining a foreign investment in China. 完

COUNCIL ACTIVITIES

Members Explore Defense Conversion

Members of the Council's Export Controls Working Group met August 3 at the Council's Washington office to discuss the Pentagon's current position on defense conversion in China. Eden Woon, senior country director for China at the Department of Defense, told the 10 member companies present that although Secretary of Defense William Perry is committed to US civilian cooperation in conversion of China's military enterprises, no money will be provided by the US government to assist China in this endeavor. Instead, the US-China Defense Conversion Commission, which was established in January, will seek to identify projects or sectors in China in which US defense-related companies might participate. Woon suggested transportation and power generation as two possible areas of cooperation.

Woon expressed enthusiasm about the Joint Commission's ability to facilitate high-level dialogue between the United States and China. He stated that in the wake of the Most Favored Nation decision, the United States should strive to reduce suspicion and mistrust between the two countries. Woon concluded by stating that the Department of Defense and the Commission's executive secretariat will enlist company participation in the defense conversion process during the coming months.

■ Meredith Gavin

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

Firms whose sales and other business arrangements with China do not normally appear in press reports may have them published in *The CBR* by sending the information to the attention of the editor.

SALES AND INVESTMENT April 15 - June 30, 1994
Foreign party/Chinese party **Arrangement, value, and date reported**

Accounting and Insurance

CHINA'S INVESTMENTS ABROAD

Horizon Market Survey and Analysis Co. (PRC)
Opened subsidiary in Los Angeles to help Chinese businesses investigate the credibility of American investors in China and assess the value of their equipment. 3/94.

OTHER

Winterthur Swiss Insurance Group (Switzerland)
Opened representative office in Beijing. 6/94.

Advertising and Public Relations

INVESTMENTS IN CHINA

Dentsu Inc. (Japan)/China International Advertising Corp., Cheng Advertising Ltd.
Formed Beijing Dentsu Advertising Co. Ltd. joint venture. $2 million. 5/94.

OTHER

Newscan Public Relations (HK)
Opened representative offices in Beijing and Shanghai. 6/94.

Agricultural Commodities and Technology

INVESTMENTS IN CHINA

Singapore Fine-Tai International Investing and Developing Co. (Singapore)/Chinese Academy of Agricultural Sciences
Will build Beijing Fine-Tai International Investing and Developing Co. to provide research facilities for Chinese and foreign agricultural scientists. $12.6 million. 6/94.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CNAIEC: 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.

Zeneca Group PLC (UK)/NA
Will build joint-venture plant to manufacture Paraquat, a weed killer. $60 million. 6/94.

Ciba Geigy AG (Sweden)/Qingdao Pesticide Factory
Established Qingdao Ciba Agro joint venture to produce farm chemicals. $11.6 million. (Sweden:55%-PRC:45%). 4/94.

OTHER

United Nations World Food Programme
Will provide aid for agricultural development project in Henan Province. $17 million. 5/94.

Banking and Finance

INVESTMENTS IN CHINA

Reann International Group (US)/Bank of China Shanghai Trust and Investment Consultancy Co., China International Association for Studies of Human Resources, and Shanghai Jiaotong University
Established the Shanghai Institute of International Finance to train senior management staff in banking, insurance, real estate, trade, international law, and accounting services. 5/94.

Korea Technology Banking Group (S. Korea)/China Technology Market Management & Promotion Center
Established Long Han High-Tech Development & Consulting Co. joint venture to facilitate economic and technological cooperation and exchange. 3/94.

OTHER

Bank of New York (US)
Opened representative office in Shanghai. 6/94.

Hiyoshi Stock Co. (Japan)
Opened representative office in Shandong Province. 6/94.

Lehman Brothers Inc. (US)
Opened representative office in Beijing. 5/94.

Marsh & McLennan Inc. (US)
Opened representative office in Beijing. 4/94.

Agricultural Bank of China
Opened representative office in Tokyo. 4/94.

Chemicals, Petrochemicals, and Related Equipment

CHINA'S IMPORTS

Mitsubishi Materials Corp. (Japan)/Shanghai Smelter, owned by China Nonferrous Industry Corp.
Will sell a copper smelter. $20 million. 6/94.

Mitsui Engineering and Shipping Co. Ltd. (Japan), Mitsui Petrochemical Industries Ltd. (Japan), Marubeni Corp. (Japan)/Jilin Chemical Industry (Group) Corp.
Will sell ethylene propylene rubber technology and manufacturing facilities for production of marine cables and defense products. $41 million. (Japan:85%-PRC:15%). 5/94.

INVESTMENTS IN CHINA

Degussa AG (Germany), DEC AG (Germany)/Shandong Qingdao Zhenya Carbon Black Group Co.
Established Qingdao German Degussa Chemicals Co. Ltd. joint venture to produce carbon black. $55 million. (Germany: 55%-PRC:45%). 6/94.

General Electric Plastics (US)/NA
Will build a thermoplastic manufacturing plant in Guangdong Province. $50 million. 6/94.

Raytheon Engineers & Constructors (US)/China National Technical Import-Export Corp.
Will build joint-venture phosphoric acid fertilizer plant at the Luzhai Chemical Fertilizer Complex in Guangxi. $22 million. 6/94.

SICPA China Ltd., a subsidiary of SICPA Group (Switzerland)/Shanghai Kele Printing Ink Chemicals Co. Ltd.
Formed joint venture to manufacture printing ink. (Switerland:70%-PRC:30%). 5/94.

OTHER

ABN AMRO (Netherlands)/West Pacific Petrochemical Co. Ltd. (Dalian)
Will provide loan for technology and equipment imports. $36 million. 4/94.

Consumer Goods

INVESTMENTS IN CHINA

Sara Lee (US)/Tianjin Jinji Co.
Established joint-venture shoe polish plant. $18 million. (US:75%-PRC:25%). 6/94.

Citizen Watch Co. Ltd. (Japan)/Beijing Jing Long Commercial General Corp.
Established Citizen Watch (China) Co. Ltd. joint venture. $5 million. (Japan:80%-PRC:20%). 5/94.

Kenwood Co. (Japan), NA (HK)/Shanghai Guandian Joint Stock Co.
Formed Shanghai Kenwood Electronics Co. Ltd. joint venture to manufacture audio equipment and laser-video disc players. $29.8 million. 5/94.

Matsushita Electric Industrial Co. Ltd. (Japan)/Shanghai Yangtze Electronic Corp.
Will form joint venture in Zhangjiang Hi-Tech Park to manufacture microwave ovens. $30 million. 5/94.

Matsushita Electric Industrial Co. Ltd. (Japan)/Wanbao Electric Group (Guangdong)
Will establish joint venture to produce electric irons. $27.4 million. 4/94.

Electronics and Computer Software

CHINA'S IMPORTS

System Union Group (UK)/Chinese Institute of Certified Public Accountants (Beijing)
Donated SunSystems financial-management accounting software. 4/94.

INVESTMENTS IN CHINA

Matsushita Electric Industrial Co. Ltd. (Japan)/NA
Will form Panasonic SH Industrial Sales (Shenzhen) Co. joint venture. 6/94.

Omron Corp. (Japan)/Beijing Stone New Technology Industrial Co. Ltd., Great Wall Computer Software and Systems Co., Qingdao Television Factory
Established Beijing Got Business Computer Systems Co. Ltd. joint venture to manufacture computerized cash registers. $5 million. (Japan:25%-PRC:75%). 6/94.

Minolta Camera Co. Ltd. (Japan)
Will establish wholly owned enterprise in Guangdong Province to produce photocopiers and laser printers for export. $24 million. 5/94.

NEC Corp. (Japan)/Chinese Academy of Sciences
Will establish NEC-CAS Software Laboratories Co. Ltd. joint venture to develop software for personal computers and workstations. $17 million. (Japan:90%-PRC:10%). 5/94.

Pepperl and Fuchs Co. (Germany)/NA (Shanghai)
Established Shanghai Pepperl and Fuchs Automation Co. Ltd. joint venture to produce photo-electric and approach switches. 5/94.

International Computers Ltd. (UK)/NA (Guangdong)
Launched joint venture to assemble imported computer parts. 4/94.

NA (Russia)/NA (Pudong Free Trade Area)
Established the Shanghai Electronic Components Co. Ltd. joint venture to manufacture lasers, ceramic elements, and optical devices. 4/94.

OTHER

General Electric Information Services, a subsidiary of General Electric Co. (US)/Great Wall Computer Group
Signed agreement to join the Three Goldens information network project. 5/94.

Mobil Oil Hong Kong Ltd. (HK)
Gave grant to Beijing People's Education Foundation to establish a mobile computer lab for students. $75,000. 5/94.

Engineering and Construction

INVESTMENTS IN CHINA

Falma Production S.A. (Switzerland), Hong Kong Kenson Properties Ltd. (HK)/Beijing Electric Light Source Corp.
Formed Beijing Jiancheng Falma Electric Light Source Co. Ltd. joint venture to produce fluorescent lights. $24.7 million. (Switzerland, HK:69.6%-PRC:30.4%). 6/94.

China Assets (Holdings) Ltd. (HK)/Dezhou Zhenhua Glass Factory
Established Dezhou Zhenhua Glass Co. Ltd. joint venture to manufacture glass. $10.67 million. 5/94.

CSR Ltd. (Australia)/Zhuhai Aquatic Products Corp.
Will form joint venture to produce glasswool insulation. $30 million. (Australia:80%-PRC:20%). 5/94.

KHD Humboldt Wedag (Germany)/China National Technical Import-Export Corp.
Signed agreement to jointly renovate Guangdong Yingde Cement Plant in Beijing. $13.3 million. 5/94.

Ferro Inc. (US)/NA
Established Foshan-Ferro Ceramic Materials Co. joint venture to manufacture and market ceramic fruits, glazes, and dyes. 4/94.

CHINA'S INVESTMENTS ABROAD

BOC/Sepah Bank (Iran)
Will provide loan for construction of cement plants. $50 million. 4/94.

Environmental Technology and Equipment

INVESTMENTS IN CHINA

NA (Singapore)/NA (Fujian)
Established Xinnuo Environmental Protection Co. Ltd. joint venture to process waste gas, water, and residue, as well as produce and market equipment for environmental protection. $1 million. 5/94.

OTHER

Kinhill Engineers Pty. Ltd. (Australia)/NA
Won contract to help develop environmental plan for Shanghai. 6/94.

World Bank
Approved loan for forest conservation project in China. $356 million. 6/94.

World Bank
Approved loan for environmental project to restore the Loess Plateau. $150 million. 5/94.

Food and Food Processing

INVESTMENTS IN CHINA

NA (France)/Beijing Milk Products Co.
Signed agreement to build a dairy and yogurt plant. $20 million. 6/94.

Nestle Co. (Switzerland)/NA (Tianjin)
Established Nestle Milk (Tianjin) Co. Ltd. joint venture to produce ice cream, yogurt, and other dairy products. $22 million. (Switzerland:75%-PRC:25%). 6/94.

Pernod Ricard Group (France)/Beijing Winery
Established Beijing-Pernod Ricard Group joint venture to produce wine. $29 million. (France:65%-PRC:35%). 6/94.

Cafe de Coral (HK)/Xiangda Catering Co. (Beijing)
Formed Beijing Baijiale Delicious Food City Co. Ltd. joint venture. $1 million. 5/94.

Numero Uno Pizza (US)
Opened restaurant in Shenzhen. 5/94.

Sadia Concordia S.A. Industria E. Comercio (Brazil)/Beijing Tianchen Industrial Development Corp.
Will establish a joint-venture meat roasting facility. $805,000. (Brazil:50%-PRC:50%). 4/94.

Machinery and Machine Tools

INVESTMENTS IN CHINA

KDK Corp. (Japan)/NA (Guangdong)
Will build an electrode foil plant in Dongguan. $4.8 million. 6/94.

Siemens AG (Germany)/Suzhou Machine Tool Electric Appliance Factory
Formed Siemens Electrical Apparatus Ltd. joint venture to produce overload relays, limit switches, and other products. $60 million. 6/94.

Sembawang Corp. (Singapore), Sullair Corp. (US)/China Nanshan Development Co.
Formed Sullair Asia Ltd. joint venture in Shenzhen to manufacture rotary-screw air compressors. 6/94.

ASI, a subsidiary of Siemens AG (Germany)/Beijing Machine Tool Switchgear Works
Established Siemens Electrical Apparatus Beijing Ltd. joint venture to produce low-voltage switch gears. $24 million. 5/94.

Caterpillar Inc. (US)/Xuzhou Construction Machinery Group Corp. (Jiangsu)
Established Caterpillar Xuzhou Ltd. joint venture to manufacture hydraulic excavators in China. $70 million. 5/94.

Grupo Atecnic (Portugal), Grupo Wu (HK), Empresa Ou Tien (HK)
Formed Atecnic Macau Co. Ltd. to manufacture air conditioners and refrigeration equipment in China. $62.5 million. (Portugal:60%-HK:40%). 5/94.

Hyundai Motor Co. (S. Korea)/North Star Group, China International Exhibition Center
Formed joint venture to produce spare parts for motors, elevators, and engineering equipment. $1.8 million. 5/94.

NA (US)/NA (Guangdong)
Will form Guangdong Yangchun Feida Co. joint venture to produce electrical machinery. 5/94.

Metals, Minerals, and Mining

INVESTMENTS IN CHINA

Mitsui Co. Ltd. (Japan)/Baoshan Iron and Steel Co., Shanghai Metals Co.
Formed Shanghai Shenjing Steel Processing Co. Ltd. joint venture. $6.18 million. 6/94.

Australian International Development Assistance Bureau/China National Nonferrous Metals Industry Corp.
Launched joint research project to clean metal mine waste. $4.76 million. (Australia:73%-PRC:27%). 4/94.

Medical Equipment and Devices

INVESTMENTS IN CHINA

Fukuda Electronics Co. (Japan)/Beijing Medical Electronic Instruments and Meters Factory
Formed Beijing-Fukuda Electronics Co. Ltd. joint venture to produce and market electronic medical instruments and meters. 4/94.

Packaging, Pulp, and Paper

INVESTMENTS IN CHINA

Saint Gobain Co. (France)/China Packaging Industry Development Co. Ltd.
Signed agreement to establish a pull-tab can factory in Beijing. $30 million. 6/94.

Oak Tree International Inc., an affiliate of Oak Tree Packaging Corp. (US), Growth-Link (Taiwan)
Will jointly build a folding-carton plant in Fujian Province. $3 million. 5/94.

Swire Pacific (HK)/Zhengzhou General Food Factory
Will establish joint-venture soft-drink bottling plant. $15 million. (HK:60%-PRC:40%). 5/94.

Coca-Cola Co. (US)/Ministry of Coal Industry
Signed letter of intent to build bottling plant in Taiyuan Province. $25 million. (US:85%-PRC:15%). 4/94.

Petroleum, Natural Gas, and Related Equipment

INVESTMENTS IN CHINA

Chevron Corp. (US)/CNPC
Signed agreement for enhanced oil recovery at Daqing oil field. 4/94.

OTHER

Donaldson, Lufkin & Jenrette Securities Corp. (US)/NA
Signed letter of intent to finance oil exploration in Tarim Basin. $600 million. 6/94.

Pharmaceuticals

INVESTMENTS IN CHINA

Cambrex Corp. (US), Nichimen (NA)/Beijing No.2 Pharmaceutical Factory
Will form joint venture to manufacture and market niacin and niacinamide. 6/94.

Copley Pharmaceutical Inc. (US)/Chia Tai Health Care Group
Will establish joint venture to distribute and produce generic drugs in China. (US:49%-PRC:51%). 6/94.

Merck & Co. Inc. (US)/Hangzhou East China Pharmaceutical Co.
Will establish Hangzhou MSD Pharmaceutical Co. Ltd. joint venture to manufacture and market prescription drugs in China. $26.3 million. (US:75%-PRC:25%). 6/94.

Merck & Co. Inc. (US)/Shenzhen Kangtai Biological Products Co. Ltd.
Opened plant to manufacture hepatitis B vaccine. 6/94.

Yamanouchi Pharmaceutical Co. (Japan)/Shenyang First Pharmaceutical Factory (Liaoning)
Established Shenyang Yamanouchi Pharmaceutical Co. Ltd. joint venture to manufacture and sell medical supplies for the Chinese market. $29 million. (Japan:80%-PRC:20%). 6/94.

Zeneca Group PLC (UK)/Sino Farm, part of the State Pharmaceutical Administration of China
Established Zeneca Sino Farm Development Consulting Co. joint venture to provide quality control, clinical practice, and technology transfer services to China. 6/94.

OTHER

Upjohn Suzhou Pharmaceutical Co. Ltd., a joint venture between Upjohn Co. (US) and Suzhou Pharmaceutical Factory
Established representative office in Shanghai. 6/94.

Louisiana Education Quality Support Fund (US)
Will provide grant to Louisiana biotechnology and pharmaceutical firms seeking to commercialize Chinese pharmaceuticals in the United States. $50,000. 5/94.

Ports and Shipping

INVESTMENTS IN CHINA

Hutchison International Port Holdings Ltd., a unit of Hutchison Whampoa Ltd. (HK)/Shantou Port Authority
Will build two container vessel berths in Zuchi Port. (HK:70%-PRC:30%). 4/94.

OTHER

Port of Portland (US)
Opened representative office in Shanghai. 5/94.

United Parcel Service (US)
Opened business development offices in Beijing, Shanghai, and Guangzhou. 5/94.

Pusan Port (S. Korea)/Port of Shanghai
Signed sister-port agreement. 4/94.

Power Generation

CHINA'S IMPORTS

Foster Wheeler Energy Corp. (US)/China National Technical Import-Export Corp., Hubei Provincial Electric Power Industry Bureau
Will provide engineering, construction, plant management, and environmental services for two coal-fired steam generators in Ezhou. $185 million. 5/94.

MAB AG (Germany)/Hebei Hengshui Power Plant
Will sell fly ash disposal systems for two plant generators. 4/94.

INVESTMENTS IN CHINA

Dominion Bridge Inc., a unit of Cedar Group Inc. (US)/Chengdu Huaxi Electric Power Holding Ltd.
Formed joint venture to construct and manage a hydro-power station. $80 million. (US:70%-PRC:30%). 6/94.

China-US Power Partners L.P., a subsidiary of Community Energy Alternatives Inc. (US)/Gansu Electric Power Construction Investment and Development Co., Gansu Electric Power Corp.
Signed joint-venture contract to build, own, and operate two 300 MW power plants. $100 million. (US:30%-PRC:70%). 5/94.

Sargent & Lundy Engineers Ltd. (US)/China Power Engineering Consulting Corp., Northwest Electric Power Design Institute
Formed Beijing-Sargent & Lundy Power Engineering Corp. Ltd. joint venture to provide engineering, procurement, project financing and development, and management services. 5/94.

Sithe Energies Inc. (US)/CNOOC
Formed joint venture to build, own, and operate power plants in Guangdong and Hainan provinces. 5/94.

Sithe Energies Inc. (US)/Gansu Provincial Electric Power Corp., Gansu Provincial Power Investment Corp.
Signed joint-venture agreement to develop 600 MW electric power plants. 5/94.

Cheung Kong Industrial Co. (HK), Hutchison China Trade Holding Co. (HK)/NA
Will build power plant in Xiqiao, Guangdong Province. $200 million. (HK:30%-PRC:70%). 4/94.

OTHER

Alsthom Intermagnetics S.A. (France)/Beijing Heavy-Duty Power Generator Plant
Will conduct feasibility study for proposed power plant joint venture. 6/94.

World Bank
Will provide loan to build the Yangzhou Thermal Power Plant in Jiangsu Province. $350 million. 6/94.

NA (Spain)/Nanyang Hekou Power Plant (Henan)
Will provide loan for import of two thermal power generating units. $371.8 million. 5/94.

ADB
Will provide loan for power plant in Guangzhou. $63 million. 4/94.

Property Management and Development

INVESTMENTS IN CHINA

Gage Davis Associates (US), Ted Farwell & Associates (US), China Ski Corp. (US)/NA
Signed letter of intent to design and build Baldy Mountain Resort in Heilongjiang Province. 6/94.

Hong Kong Kenson Properties Ltd. (HK)/Beijing Hongyun Properties Corp.
Established Beijing Jingao Center Real Estate Development Co. Ltd. joint venture to construct a building complex. $30 million. 6/94.

Megaway Group (Singapore)/Qingdao Economic Development Co. (Shandong)
Will jointly build industrial park. $100 million. 5/94.

Ever Wing Investment Ltd. (HK)/Beijing Comprehensive Investment Corp.
Will construct the Beijing Comprehensive Investment Building. $23 million. 4/94.

Telecommunications

CHINA'S IMPORTS

Motorola Inc. (US)/ChinaTek Inc.
Signed contract to install cellular phone network in eight cities in Liaoning Province. 6/94.

Boston Technology, Inc. (US)/Changsha Telecom Bureau (Hunan)
Will sell a CO ACCESS 600 system for enhanced telecommunications services. $1.5 million. 5/94.

Ericsson A/S (Sweden)/NA
Won contract to expand mobile cellular network in Hebei. $30 million. 5/94.

GTE Spacenet, a division of GTE Corp. (US)/China National Post & Telecommunications Appliances Corp., China Telecommunications Broadcast Satellite Co.
Won contract to provide telemetry tracking, control, and training services for the ChinaSat 5 satellite. 5/94.

Motorola Inc. (US)/NA
Signed contracts to provide paging systems in Hubei, Liaoning, and Zhejiang provinces. 5/94.

INVESTMENTS IN CHINA

AT&T Inc. (US)/Beijing Telecommunications Administration
Will supply communications equipment and build a research lab and two plants for assembling high-speed switches. $150 million. 4/94.

Northern Telecom Inc. (Canada)
Will purchase 25% direct equity stake in Philips Semiconductor Corp. of Shanghai. 4/94.

Northern Telecom Inc. (Canada)/NA (Guangdong)
Will build a manufacturing and research and development unit in Shunde. $130 million. (Canada:40%-PRC:60%). 4/94.

Northern Telecom Inc. (Canada)/Shanghai IC Design Center Corp.
Will form joint venture to design and supply integrated circuits for Northern Telecom's Shunde joint venture and other electronics manufacturers in China. (Canada:55%-PRC:45%). 4/94.

Siemens AG (Germany)/Shanghai PT Appliances & Industry Corp.
Will form Shanghai Siemens Communication Power Source Co. joint venture to produce power systems for digital program-controlled switchboards and other devices. $4.4 million. 4/94.

OTHER

Unisys Corp. (US)
Established Unisys China Co. in Beijing. 6/94.

Textiles and Apparel

INVESTMENTS IN CHINA

E.I. du Pont de Nemours & Co. (US)/China Worldbest Development Corp.
Formed joint venture in Shanghai to produce spandex. $90 million. (US:90%-PRC:10%). 5/94.

Hoechst Celanese Corp. (US)/China New Building Materials (Group) Corp., China Worldbest Development Corp.
Formed joint venture to manufacture non-woven waterproof textiles. 5/94.

McGregor Co. (US), Global Licensing Co. (US)/Yizheng Joint Corp. of Chemical Fiber Industry
Signed joint-venture agreement to manufacture and sell McGregor sportswear. $500,000. 5/94.

Pierre Cardin (France)/Beijing Qinghe Worsted Mill, CITIC Australia C. H. China Investment Ltd.
Formed joint venture to make clothing in China. $5 million. 5/94.

Mitsubishi Rayon Co. Ltd. (Japan), Itochu International Inc. (Japan)
Established Qingdao Lington Textile Co. Ltd. to produce acrylic. $4.8 million. (Japan:65%, 35%). 4/94.

CHINA'S INVESTMENTS ABROAD

Wuhan Cityform Dyeing & Printing Industries Ltd., Hongtex Development Co. Ltd. (HK)/Eastern Board Industrial Co. Ltd. (Thailand)
Will establish joint venture to manufacture dyed and printed fabric. $9.2 million. 4/94.

OTHER

ADB
Will provide additional loan for acrylic fiber plant in Anhui Province. $15 million. 4/94.

Esprit de Corp. (US)
Opened outlet in Beijing. 4/94.

Transportation

CHINA'S IMPORTS

Cubic Automatic Revenue Collection Group (US)/Guangdong Machinery Import-Export Corp., Guangzhou Metro Corp.
Will sell an automatic fare-collection system for first phase of subway system. $18.5 million. 5/94.

Mitech Corp., a subsidiary of Ayala Group (Philippines)/Wuhan Tianhe Airport Authority
Will install a computerized highway toll system in central China. 5/94.

Rolls Royce PLC (UK), Inchape Motors International (HK)
Will export luxury sedans to the mainland. 4/94.

INVESTMENTS IN CHINA

Allied-Signal Automotive (US)
Formed a wholly owned venture in Pudong New Area of Shanghai to produce turbochargers for diesel trucks and vans. $27 million. 6/94.

Allied-Signal Automotive (US)/Dongfeng Motor Corp., Guangzhou Junda Automotive Group
Will form joint venture to produce hydraulic braking systems for passenger cars and light commerical vehicles. $25 million. 6/94.

Dominion Bridge Inc., a unit of Cedar Group Inc. (US)/Chengdu Bureau of Communication
Will jointly build and operate a highway between Chengdu and Dujianyan. $85 million. 6/94.

Dominion Bridge Inc., a unit of Cedar Group Inc. (US)/NA (Chengdu)
Will jointly construct light rail system. $550 million. (US:70%-PRC:30%). 6/94.

Ford Motor Co. (US)/Shanghai Automotive Industry Corp.
Will form joint venture to manufacture interior trim, seats, and instrument panels. (US:51%-PRC:49%). 6/94.

Ford Motor Co. (US)/Shanghai Yao Hua Glass Works
Formed Shanghai Fu Hua Glass Co. Ltd. joint venture to make safety glass products. (US:51%-PRC:49%). 6/94.

Khazanah Holdings (Malaysia), Mitsubishi Corp. (Japan)/Aviation Industries of China, China Aerospace Corp., and China North Industrial Group
Will manufacture and distribute auto-related products in China. $1.5 billion. 6/94.

Nissan Motor Co. (Japan)
Established Nissan Motor (China) Ltd., a wholly owned subsidiary, to distribute and service vehicles in China. 6/94.

Varity Corp. (US)/Tianjin Engine Works
Will produce Perkins diesel engines. 6/94.

Daney Group (US)/Haikou Automobile Repair Factory
Established Wanlida Automobile Repair Co. joint venture to provide after-sale services for imported automobiles. $2 million. 5/94.

Goodyear Tire & Rubber Co. (US)/Dalian Rubber General Factory
Formed joint venture to manufacture tires in China. $30 million. (US:75%-PRC:25%). 5/94.

Hyundai Commercial Co. Ltd. (S. Korea)/NA (Jilin)
Established joint venture to manufacture dashboards for automobiles and motorcycles. 5/94.

United Engineers Bhd. (Malaysia), Ho Hup Construction Co. Bhd. (Malaysia)/NA (Guangdong)
Will build a 116-mile expressway between Yangjiang and Zhanjiang. $770 million. 4/94.

OTHER

BMW AG (Germany)
Opened representative office in Beijing. 6/94.

Chrysler Corp. (US)
Opened representative office in Beijing. 5/94.

General Motors Corp. (US)
Harrison Division opened customer service center in Beijing. 5/94.

Finnair (Finland)/CAAC
Will establish training program for Chinese pilots. 4/94.

NA (Australia)/Subway Construction and Development Co. (Tianjin)
Will provide loan to improve and extend Tianjin subway system. $112 million. 4/94.

Miscellaneous

INVESTMENTS IN CHINA

Hassall & Associates (Australia)/Agricultural Bank of China
Formed Jinhai International Business Development & Consulting Co. joint venture to advise Australian firms investing in China. (Australia:50%-PRC:50%). 5/94.

OTHER

Robert Lien Enterprises Inc. (US), Tien Yi International Ltd. (HK)/China Association of Science and Technology, New China News Agency
Opened the Exploratorium Exhibition China, a showcase of 63 scientific exhibits, at the Museum of Chinese Revolution and History in Beijing. $1.5 million. 6/94.

Shearman and Sterling, a law firm (US)
Opened representative office in Beijing. 5/94.

Argentina/PRC
Signed agreement to increase exchanges on legal issues and improve bilateral cooperation. 4/94.

Gide Loyrette Nouel, a law firm (France)
Opened representative office in Beijing. 4/94.

Russia/PRC
Established free-trade zone between Harbin and Vladivostok. 4/94.

Ohyama Lighting Co. Ltd. (Japan)
Donated lighting equipment to the Great Hall of the People in Beijing. $200,000. 3/94.

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Seek exec/bus posn in Shanghai. 3 yrs mngmt consult to Fortune 500 in Taiwan/China, plus big 6/IBM. Exp in finance, power, elec and manuf industries. MA Ivy League, biling. Entrepreneur pkg considered. Contact: Beebe, Tel: 8862/776-5629, Fax: 8862/776-5639.

MBA seeks intn'l bus posn. Exp in China: financial analyst, govt official, univ teacher. Exp in US: accountant. Will reloc. Contact: Michael, Tel: 313/747-8573.

MBA seeks mngmt posn to help US corporation market products or set up bus in China. BA electrical eng. Exp in intn'l trade, mrkting, mngmt, and engineering. Speak/write Mandarin and Shanghainese. Contact: Frank Gu, Tel: 818/458-7427.

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