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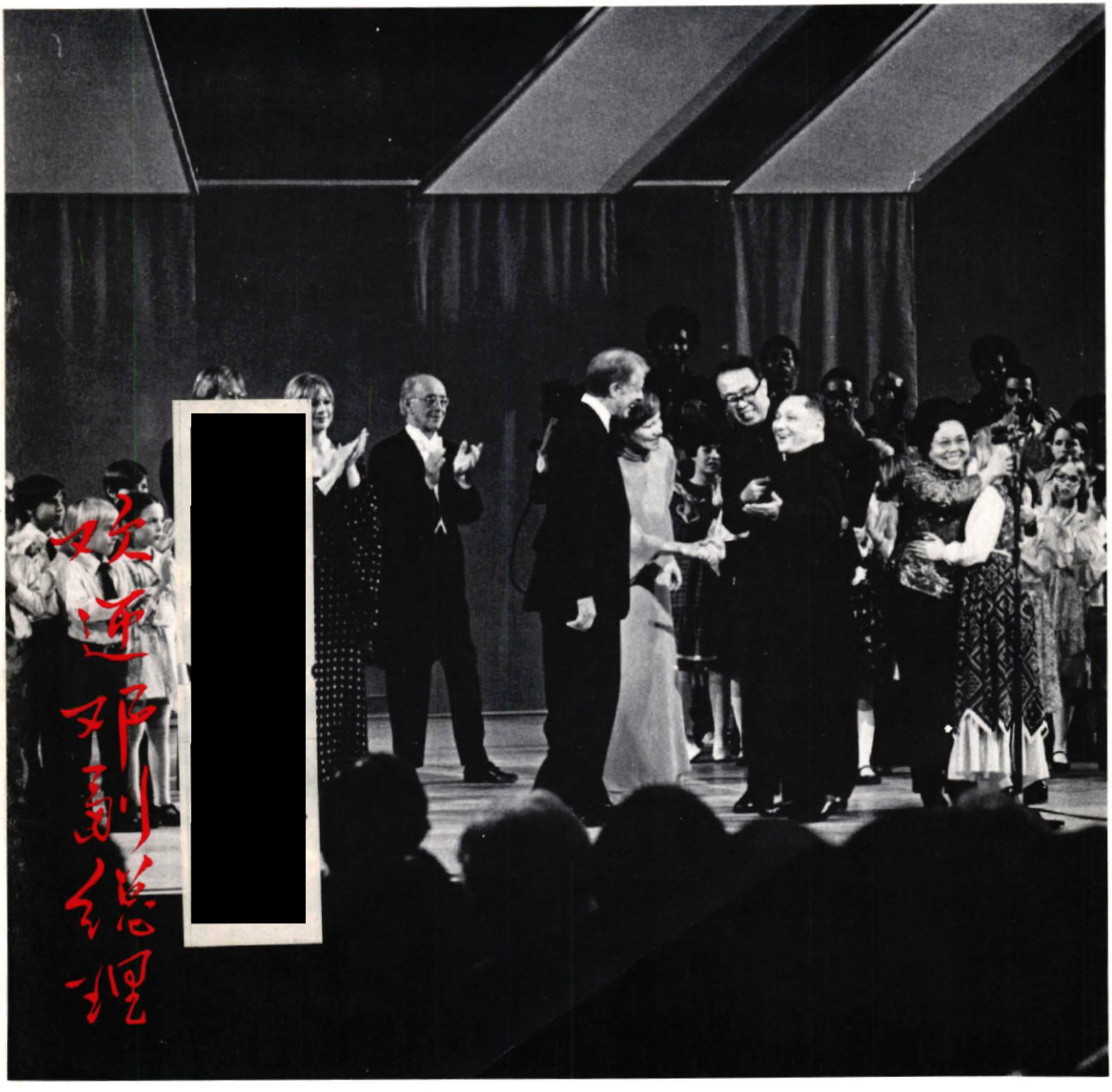

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Front Cover: Thanks for the memory! China's Vice Premier Deng Xiaoping and President Carter on stage at the end of the Gala Performance of American Arts sponsored by the National Council for US-China Trade at the Kennedy Center, Washington DC, January 29, 1979 in honor of Deng's visit. Madame Zhuo (Mrs. Deng) hugs Amy Carter at right. The performance was broadcast throughout the United States and China by public television, under a grant from Atlantic Richfield Company. Calligraphy by Dora Fugh Lee

The new Pinyin romanization system is used throughout this issue as widely as possible. The old system of Wade-Giles, however, has been used in some cases where the Pinyin style could not be ascertained.

The China Business Review

January-February 1979—Volume 6, Number 1

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CHINA DATA

THE CHINA BUSINESS REVIEW is published bimonthly by the National Council for US-China Trade, 1050 17th Street, N.W., Suite 350, Washington, D.C. 20036 USA. The National Council is a non-profit organization incorporated under the laws of the Distrct of Columba. The CHINA BUSINESS REVIEW is pubished principally for members of the National Council. Application to mail at controlled circulation rates is pending at Washington, D.C. The magazine is available for subscription in the US and Canada at $60 per year; elsewhere at $75 a year including airmail postage.

The National Council for United States-China Trade is grateful to His Excellency Huang Zhen, Minister of Culture, The People's Republic of China for the calligraphy on the front cover of the China Business Review.

China Trade Events

WASHINGTON, DC, March 1

National Council President Christopher H. Phillips will give the opening address to a conference on US-China trade sponsored by the Georgia World Congress Institute. Contact (404) 685-2950.

WASHINGTON, DC, March 6

The International Management and Development Institute will sponsor a panel discussion on East-West Trade at the Brookings Institution. Contact (202) 337-1022.

PITTSBURGH, March 13

The International Business Forum and the Pittsburgh office of the Departmente of Commerce will cosponsor a conference on the China trade. Contact (215) 568-2710.

MANHATTAN, KANSAS, March 13–14

The College of Business Administration at Kansas State University will sponsor a conference on China. Speakers will include Norman Getsinger of the National Council.

BOSTON, March 15

Michell George of DOC will address the Semiconductor Equipment Manufacturers' Association.

ROSSLYN, VIRGINIA, March 16

William Clarke of DOC will speak to a group from the University of Rochester. Contact Greg Stahl, (716) 275-4561.

FORT MITCHELL, KENTUCKY, March 23

Michelle George of DOC will speak to a group sponsored by the State of Kentucky. Contact Bill Savage, (502) 564-2170.

CHICAGO, March 27–28

"How to Reach the China Market" is the topic of this McGraw-Hill conference at the Drake Hotel. Contact Mary Bleakley, (212) 997-2493.

BRIDGEPORT, CT, April 5

William Clarke of DOC will speak to a seminar organized by the Hartford District office of DOC. Contact Vic Kilbourn, (203) 244-3530.

HARTFORD, CT, April 5

William Clarke of DOC will participate in a program on China sponsored by Trinity College.

WASHINGTON, DC, April 5–6

The American Bar Association and the Licensing Executives Society will cosponsor a conference on "Current International Legal Aspects of Licensing and Intellectual Property at the Hyatt Regency." Contact (216) 696-3939.

TOLEDO, OHIO, April 6

Nicholas Ludlow, editor of the *China Business Review*, will speak on how to do business with China. Contact Professor Hoskins, (419) 372-0222.

DETROIT, April 6

William Clarke will speak at a seminar organized by the Michigan State Department of Commerce.

ROANOKE, VIRGINIA, April 11–12

Trade opportunities with the People's Republic of China will be the subject of a panel discussion. Contact Dr. Arnold Schuetz, (703) 961-6527.

PHILADELPHIA, April 12

The District office of DOC will sponsor a program on the China trade.

GUANGZHOU, CHINA, April 15–May 15

China will hold its 45th biannual Export Commodities Fair. Contact the Council's Importer Services Department, (202) 331-0290.

RALEIGH, N.C., April 24

The Greensboro District Office of DOC will sponsor a seminar on the China trade. Contact (919) 378-5345.

JACKSONVILLE, FLORIDA, April 25

The Council on International Development will sponsor a symposium on doing business with China.

SAN FRANCISCO, April 30 and May 1

The Federal Bar Association will hold a conference on US-China Trade Law. Contact (202) 638-0252.

NEW YORK, May 1

Nicholas Ludlow of the National Council will address the American Copper Council Export Seminar on new possibilities in the PRC. Contact Herbert Barchoff, (202) 823-8000.

NEW YORK, May 10–11

Harcourt Brace will sponsor a seminar on legal trends in the China business. Contact (212) 888-3030.

CHARLESTON, SC, May 17

The District Office of DOC will sponsor a panel discussion on China.

SEATTLE, May 28

William Clarke of DOC will speak at a conference sponsored by the Port of Seattle.

SEATTLE, May 29

William Clarke of DOC will speak to the World Trade Club.

SAN FRANCISCO, May 30–31

William Clarke will discuss legal trends in the China trade.

BALTIMORE, June 9

The American Bar Association will sponsor a conference on legal aspects of doing business with the PRC.

CHINA WIRE

An Executive Briefing on Major Trends in the China Business

MICHAEL BLUMENTHAL, SECRETARY OF THE TREASURY WILL HEAD NEW SINO-US ECONOMIC COMMISSION ON US SIDE. President Carter appointed Secretary Blumenthal to the new post prior to his departure for Peking on February 23. The important new body will probably meet twice a year, with cabinet level officials from both sides journeying to Washington and Peking to resolve pressing economic issues. The commission will be similar to joint bodies the US has established with other nations.

COMING TO THE US—The first visit by a Chinese Minister to the US will be that of China's Minister of Posts and Telecommunications, Wang Zigang, in May. Visiting soon are the President of China's Petroleum Corporation, and the head of China's CEROILFOODS FTC, Zhang Jianhua, well known as China's first commercial counselor in the US, hosted by Continental Grain and Cargill. Also in motion—important delegations from China's Ministy of Foreign Trade and the State Capital Construction Commission.

AND TO CHINA—Pan Am's Board of Directors are off to Peking in March, Secretary Kreps' delegation is now going May 7. . .

MEANWHILE IN SPACE . . . With Chinese telecommunications teams everywhere—Germany, Canada, France, Japan, and all over the US, what is China deciding? Bob Frosch, NASA administrator who first traveled to China with White House technology advisor Frank Press last summer, is going back to Peking in May. China wants NASA to train scientists, NASA wants to visit Chinese space production facilities. . .

US TRADE CENTER IN PEKING—In late February, US firms were negotiating to build a US trade center in Peking that will rival Japan's 47-story bid.

HOW MUCH DID CHINA BUY IN 1978?—New report lists 544 sales of licenses, plants, products and technologies in 1978, plus sales reported under negotiation—value of sales: $20 billion, negotiations over $40 billion. Available from the National Council at $10 plus $0.75 postage.

CHINA'S NEW OUTPUT FIGURES Industrial output up 12% in 1978, may be more this year. Steel production was 31 million tons, more than halfway towards China's 1985 target of 60 million tons. Oil output was up 11.1%, coal expected to reach 600 million tons. Meanwhile China is thinking twice about its 85% agricultural mechanization target for 1985, is revamping management and economic centralization.

THIS SPECIAL ISSUE CELEBRATES NORMALIZATION WITH A NUMBER OF EXCLUSIVE ARTICLES ASSESSING THE IMPACT OF THE NEW UNITED STATES—PEOPLE'S REPUBLIC OF CHINA TIES ON BUSINESS AND TRADE.

THIS ISSUE FEATURES—

- A FASCINATING, FIRST TIME INTERVIEW WITH MEMBERS OF CHINA'S COMMERCIAL STAFF IN WASHINGTON DC—"In the long run crude oil will be an important export item from China to the US." (Page 6).

- A SPECIAL FEATURE ON THE OFFICIAL VISIT OF VICE PREMIER DENG XIAOPING AND HIS PARTY TO THE UNITED STATES (Page 9)

- THE KENNEDY CENTER GALA SPONSORED FOR VICE PREMIER DENG BY THE NATIONAL COUNCIL (Page 17).

- SECRETARY OF THE TREASURY W. MICHAEL BLUMENTHAL'S OUTLOOK ON SINO-US ECONOMIC PROSPECTS IN AN EXCLUSIVE INTERVIEW: "I don't think the Chinese are in any rush (for credit)" (Page 19).

- THE TEXT OF THE NEW US-PRC AGREEMENTS (Page 23).

- IN ANOTHER EXCLUSIVE INTERVIEW, SECRETARY OF COMMERCE JUANITA KREPS DISCUSSES TRADE RELATIONS, PRESIDENT AND FUTURE AMERICAN—PRC TRADE: "Deng's attitude toward trade is optimistic: What is the most trading we can do with you? He raised the question of whether US-China trade by 1985 could match that of China with Japan." (Page 31)

- FINANCING PLANT AND EQUIPMENT SALES TO CHINA: With normalization the way is clear for American firms to sell China plant and equipment unhindered by political questions. But those billions of dollars of deals announced and under discussion must be financed the most competitive way possible—with Exim Bank facilities and without. How can this financing be arranged? Can it be arranged satisfactorily in the US? Bank of America's Deidra Deamer says Yes (Page 37).

- AND, IF YOU WANT TO KNOW THE DETAILS OF OUR FUTURE ECONOMIC RELATIONS WITH CHINA, READ THE A—TO—Z OF THOSE RELATIONS, BEGINNING PAGE 49 , FROM AGRICULTURE TO ZOOS—THERE'S SO MUCH GOING ON IT'S HARD TO KEEP TRACK!

NEW EMBASSIES

United States Embassy in Beijing (Peking)

China's Embassy on Connecticut Avenue, Washington, DC

NEW AMBASSADORS

LEONARD WOODCOCK

Leonard Woodcock, former President of the United Auto Workers UAW and chief of the US Liaison Mission in China, was sworn in as US ambassador to Beijing on March 1, 1979. Mr. Woodcock will be the first official US ambassador to the PRC since 1949.

Mr. Woodcock comes to diplomacy from a distinguished career in public service and labor union leadership. Serving as President of the United Auto Workers from 1970 until July 11, 1977, when he joined the US mission in Beijing, he pioneered in bargaining for health and safety improvements, voluntary overtime, full cost-of-living protection in worker wage plans, establishment of the lengthy New Years' paid holiday period, and other workers' benefits. He was born on February 15, 1911, in Providence, Rhode Island.

For 15 years prior to his appointment as UAW President, Mr. Woodcock served as Vice President of the union. Under his leadership, UAW became the largest industrial union in North America.

Mr. Woodcock became known as an international figure when he led President Ford's Special Mission to Hanoi from March 13-22, 1977. He has been a member of the Council on Foreign Relations, the Trilateral Commission, the Overseas Development Council, and the American Arbitration Association, among many others. He holds honorary degrees from eight universities and colleges.

CHAI ZEMIN

A seasoned diplomat, China's Ambassador Chai Zemin has been in the US since August 1978. He has had several previous ambassadorial posts—Hungary (1961–64), Guinea (1964–67), Egypt (1970–74) and Thailand (1975–78)—all important overseas missions.

Chai was born in 1915 in Shanxi Province. During the Sino-Japanese War (1937–45), he was deputy commander of the Jianbang Military District in southern Hebei Province and head of the Taiyue Military District Political Bureau. He was concurrently political commissar of the Taiyue Second Military Subdistrict in northern Shansi.

After the formation of the People's Republic in 1949, Chai spent 12 years in municipal posts in Beijing. He held both Communist party and government positions. In 1955 he was promoted to secretary-general of the Beijing Municipal People's Council, and in 1959 was noted as director of the Communications Department of the Beijing Municipal Party Committee.

Chai entered the diplomatic service in 1961 as Ambassador to Hungary, where he served for three years. He left Budapest in 1964 to take up duties as Ambassador to Guinea. Chai remained there until 1967. In 1970 Chai succeeded current Foreign Minister Huang Hua as Ambassador to Egypt, one of China's most important positions in Africa. 完

An Interview With CHINA'S TRADE REPRESENTATIVES IN THE US

The Liaison Office of the People's Republic of China, established in 1973 following the signing of the Shanghai Communique, will become a full-fledged embassy on March 1. Its staff, long a focus of friendly curiosity on the part of Washingtonians and other Americans, has begun to step out into the limelight, particularly in connection with the visit of the PRC's Vice Premier Deng Xiaoping.

On January 20, CBR *conducted the first feature interview ever granted by members of the Commercial Section of the Liaison Office. Sitting in an informal circle of chairs in one of the meeting rooms of the Connecticut Ave., NW offices, five members of the commercial staff discussed US-China trade and American society.*

Peng Jinbo (Peng Chin-po), the Commercial Counsellor, hosted the interview. With him were his two senior assistants: Wang Tianming (Wang Tien-ming), 2nd Secretary for economics and liaison, and Ren Zhijie (Jen Chih-chieh), also 2nd Secretary for economics and liaison; as well as Lo Xin (Lo Hsin), a representative for light industrial products; and Fang Xingtong (Fang Hsing-tung), an assistant to Mr. Ren. This group contained not only the three senior members of the eighteen-person commercial section—the largest and most active department at the Liaison Office—but also the oldest and newest members of its staff.

The interview was conducted by Nicholas Ludlow, CBR *Editor; Stephanie Green, former Deputy Editor; and William Armbruster and Edith Terry, Assistant Editors.*

THE ROLE OF THE COMMERCIAL SECTION IN US-CHINA TRADE AND ITS PLANS FOR GROWTH

• Now that normalization has occurred, we can look forward to an increase in trade, and, correspondingly, a gradual enlargement of the staff in our office, according to the demands of business. No decisions have yet been made as to the exact number, but one thing is definite: there will be some increase in the staff members of the commercial section.

As to whether we will expand to other cities, this subject still under consideration.

• Regarding Chinese exports, many new customers are very anxious to know how to start trade with China. We have many, many telephone calls—some are older customers and some are new customers. (Lo)

• Regarding Chinese imports, although the Liaison Office does not sign contracts, we contribute to the development of business between our two countries. On those occasions, when Chinese trade corporations and American firms have misunderstandings or difficulties, we can serve as the conduit for input which we hear from both sides. This sometimes happens when we import advanced equipment, and the manufacturers have difficulty obtaining export licenses. In this way, we are an important link in business. (Ren)

• We also inform China about new equipment and manufactures which can be supplied from this country. Recently there have been some big contracts which we think we played a role in bringing about, such as Bethlehem Steel, US Steel, Kaiser, and Fluor.

CHINESE EXPORTS TO THE US MARKET

• We shall increase our exports greatly. But, in the future we foresee that the trade balance will be in favor of the US side. So on the one hand, we have to pay attention to our imports from the US, and on the other hand, we have to stress our exports to the US market. In fact, China's exports to the US form a very low percentage of total US purchases from around the world. (Peng and Lo)

• In the long run, crude oil will be an important export item from China to the US. As the Chinese oil industry develops, our exports to this country will gradually be increased. Of course, it will take time. As you know, last year we made a very small start by concluding a trial order of about 500,000 tons for delivery to the Coastal States Corporation.

• We expect to gradually increase our exports of traditional Chinese commodities to the US, including light industrial products; cereals, oils, and foodstuffs; native produce; arts and crafts, and textiles.

• In addition, we look forward to possibly increasing sales of machinery, machine tools, and mineral products. We also feel there are prospects for trade in spare parts and appliances. (Peng and Lo)

• As you know, textiles negotiations have just begun. We do not think of textiles as an isolated item, but as having links with other Chinese export commodities as a whole. In short, China's exports to the US today are much less than our imports from the United States and our exports of textiles are a very small proportion of total US imports of this item. If our textile exports to the US are further reduced, we think it would not be beneficial to the development of trade between our two countries. Now textiles negotiations are in progress. We hope that they will achieve positive results, satisfactory to both sides.

PRC OFFICES IN THE UNITED STATES

• After further development of trade relations between China and the US, we think it is possible to selectively set up offices or agencies (for foreign trade corporations, the Bank of China, CCPIT, etc.) in some of the major cities around the US. But this kind of issue is still being studied. Maybe we won't get all these offices all at one time, but probably some of them would be possible.

• I would like to see offices for the foreign trade corporations established first. Of course, I would also like to see other organizations get offices.

• The means of liaison between commercial section staff who deal with foreign trade corporation matters and possible new foreign trade corporation offices in the US is another issue under study.

OFFICES IN PEKING

• We know there are many US industrial and commercial enterprises that hope to have offices or representatives in Peking. The major difficulty is that we are short of accommodations in Peking, so it will take time to get this settled. At no point, however, will all these enterprises be able to have their offices in China.

• We understand that as far as a National Council office is concerned, this is being discussed with its counterpart, the CCPIT (China Council for the Promotion of International Trade).

RELATIONS WITH THE NATIONAL COUNCIL AND THE US GOVERNMENT

• The National Council for US-China Trade has done a great deal of work towards enhancing the mutual understanding and friendship between our peoples and in promoting trade relations. It is my belief that following the development of trade between our two countries, you will have much more work to do.

In the future, we will have more government-to-government contacts, but there will still be much work to be done on a people-to-people level.

• As you know, we have kept in touch with some of your governmental departments, the Department of Commerce in particular. I am sure that now our contacts with them will be increased. During this period, the US and China will gradually resolve some of the trade barriers, thus facilitating further development of trade. In the process, we will be able to have wider contacts than we had previously.

THE CLAIMS/ASSETS ISSUE

• The claims/assets issue is one of the issues to be solved. We have read in the paper that during the forthcoming visits to China of Secretaries Blumenthal and Kreps, this issue will be discussed. I myself would prefer to see it resolved soon.

Peng Jinbo and members of China's commercial staff and CBR staff

• Direct shipping and direct air links naturally depend on the outcome of these discussions. These areas are important ones for furthering links in the trade sphere.

JOINT VENTURES

• This is a new issue for us. As long as China's sovereignty remains intact, and the conditions are appropriate, this matter can be considered.

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• We are not expert in this area, but would appreciate seeing any information that you have on the subject.

THE PERSONAL SIDE OF THINGS

(Ed. Note: Not all *CBR* questions sought answers to the issues in US-China trade. In the spirit of the informal roundtable-style discussion which everyone desired, the interviewees responded to a few more lighthearted inquiries.)

• We are very busy! We devote much of our time to work, but even so we're still a long way from satisfying the requirements of our US customers. In some cases, we must work overtime. We understand that you do the same as we!

• Even before the establishment of diplomatic relations between China and the US we had free and open contacts with the ordinary people of this country. Our contacts are comparatively wide.

• We go to the cinema to see movies, but not that many. We have seen "Julia," "Roots," "The Godfather" and others.

• I think American TV gives timely news, but there are many commercials. Of course, I understand that TV stations depend on these for their revenue. Since we are so busy, we mostly watch news broadcasts, and sometimes movies.

• After work and on Sundays, we sometimes go to friends' homes. We also take walks in nearby parks, and sometimes attend receptions and dinners.

• At the present time, we have more than enough room in the Liaison Office for everyone to live here. But living in the suburbs is now under study.

• I think the American system of industrial management is very impressive. And the American people are very friendly.

• I think each city I have visited in the United States has its own merit. Since I live in Washington, D.C. I think it is a very good place. However, I also like the scenery in San Francisco very much.

• I think I also like San Francisco the best. (Wang)

• New York is a key industrial and commercial city. From a trade point of view, it's very impressive. It's crowded and busy, though, and everyone's in a rush.

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CAREERS OF CHINESE COMMERCIAL STAFF AT INTERVIEW

Peng Jinbo

Mr. Peng, Commercial Counsellor since mid-1977, presides over the largest department staff of China's new embassy in Washington, DC—one which he predicts will grow even more as trade increases in the post-normalization era. Sixty years old and a native of Hunan Province, Mr. Peng has been thrust into a vortex of activity in his year and a half in the United States, a period which has corresponded with China's accelerated "new long march" toward modernization. He has traveled extensively in this country to see American companies on their home turf, and has met frequently in Washington with US businessmen.

Prior to his US post, Mr. Peng was Deputy Director of the Third Bureau of the Ministry of Foreign Trade in Peking. During his tenure in the Ministry, he visited France, Holland, Germany, Greece, Austria, Romania, Chile, Peru, Venezuela, Canada and other countries. In 1960, he was Commercial Counsellor in Burma. Before the establishment of the PRC in 1949, he was a member of the Eighth Route Army, well-known in recent Chinese revolutionary history.

A soft-spoken man with some facility in English, Mr. Peng is married to Li Guozhe, a graduate of Peking's college of foreign trade, who accompanied him to Washington. They have three children, two boys and a girl, who have remained in China to continue their studies.

Wang Tianming

Mr. Wang is the only remaining member of the Liaison Office who came with the first wave of Chinese diplomats back in July, 1973. At that time, they set up temporary quarters in the Mayflower Hotel before moving into the former Windsor Hotel at 2300 Connecticut Ave., NW.

Born on February 22, 1934, in Zhejiang Province, Mr. Wang was promoted in mid-1977 from 3rd Secretary to 2nd Secretary for economics and liaison. During the early part of his tour here, he concentrated on PRC exports to this country, but since his promotion has become more involved in economic analysis. In connection with his duties, he has traveled extensively throughout the US and has met frequently with US businessmen. Fluent in English, Mr. Wang serves as interpreter for Mr. Peng.

From 1959 to 1965, Mr. Wang was secretary to the Commercial Counsellor and an interpreter at the PRC Embassy in Pakistan. He has also been an interpreter and guide for US businessmen at the Chinese Export Commodities Fair in Canton.

An outgoing, vivacious individual, he is renowned among American businessmen as "the Chinese with the longest memory." They are amazed at his ability to remember all whom he meets and his recall of even minor details of past discussions with them.

Mr. Wang is married to the very personable Jin Zhuguang, who joined him in Washington in late 1974, and currently works with him in economics and liaison. The couple's two children attend primary school in Peking.

Ren Zhijie

Mr. Ren, currently 2nd Secretary for economics and liaison, joined the Liaison Office staff in 1974. Born in Hubei Province 46 years ago, he has represented the interests of the China National Technical Import Corporation (TECHIMPORT) as well as MACHIMPEX and MINMETALS. At the present time, he appears to be the leading commercial section specialist on American exports to China, and as he comments himself in the interview, assists US businessmen in surmounting problems which arise in the sale of their products to China.

Mr. Ren has been very active in coordinating the visits of technical survey delegations to the US, and has traveled extensively to US company facilities. Just this month, he joined the entourage of Vice Premier Deng Xiaoping in his tour around this country.

Prior to his assignment to Washington, Mr. Ren spent a year in East Germany. In the early 1970s, he served as an interpreter for some MACHIMPEX delegations which visited Europe. From 1963–66, he was posted in London and traveled throughout Britain. In 1961 he lived in Bern.

Mr. Ren is married to Shang Zhixian, who joined him here in late 1975. Mrs. Shang majored in mathematics, and currently handles business for the CEROILS corporation, particularly in foods and oils. They have two children who have remained in China.

Lo Xin and Fang Xingtong

Mr. Lo and Mr. Fang are the two newest members of the Liaison Office, having arrived only last November 11 to take up their duties. Mr. Lo is concentrating on widening exports of Chinese light industrial products to the US market, and Mr. Fang is an assistant in economics and liaison, working with Mr. Ren.

Ron David: News Photo

Welcome Deng Xiaoping

Vice Premier of the People's Republic of China

January 28 to February 5, 1979

Deng Xiaoping waving to wellwishers at the White House

Vice-Premier and Madame Deng with President and Mrs. Carter

The historic official visit of Vice Premier Deng Xiaoping to the United States began with an intensive round of ceremonies, press conferences, and summit meetings in the nation's capital.

The main events, which were compressed into the three-day period beginning Monday, January 29, included a formal welcoming ceremony on the White House south lawn, Monday morning, followed that evening by a state dinner and performing arts gala at the Kennedy Center, and culminated Wednesday afternoon in the White House East Room where President Carter and Vice Premier Deng signed two agreements promoting scientific and cultural exchange.

While in Washington, Vice Premier Deng also attended luncheons with Secretary Vance, members of the Senate Foreign Relations Committee, and met privately with Senate Majority Leader Robert Byrd and House Speaker Thomas P. "Tip" O'Neill. Thursday morning the Vice Premier wrapped up the Washington portion of his historic tour at a Washington Monument farewell ceremony.

It was only after leaving the nation's capital, however, that Deng and his entourage accompanied by Commerce Secretary Juanita Kreps, really got down to business. In Atlanta, his first stop outside Washington, Deng was led on a tour of a Ford assembly plant by Henry Ford. At a luncheon in his honor, Deng heard Mayor Maynard Jackson put in a pitch for a Chinese consulate general in Atlanta. Deng then flew on to Houston, where he inspected facilities of the Hughes Tool Company and also took a simulated spaceship ride at the Johnson Space Center.

At a breakfast meeting in Houston with newspaper editors and publishers, Deng said negotiations with US companies to develop China's oil resources were progressing. He also reportedly stated that China will need billions of dollars in foreign exchange, possibly scores of billions, for its modernization program over the next few years. But Fang Yi subsequently remarked

Deng Xiaoping with Henry Ford II at Atlanta's Ford assembly plant

that China's imports of technology will be considered in light of "our ability to pay."

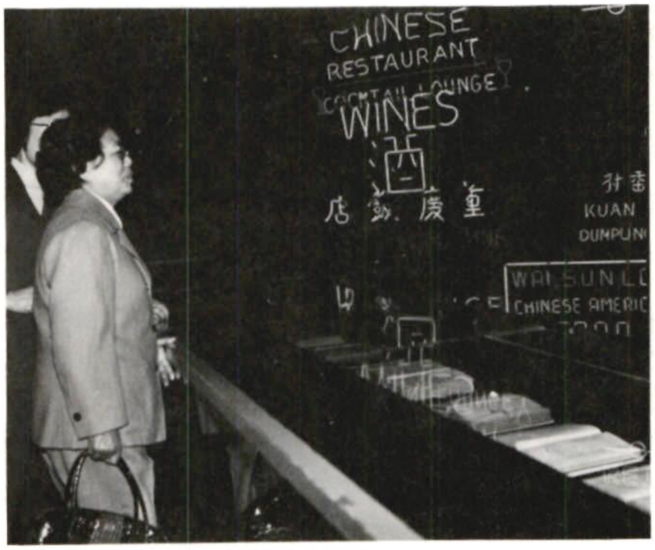
Deng's last stop in the US was Seattle, where he visited the Boeing plant that is assembling three SP 747s for the PRC. Although Deng himself was sick and had to rest, most other members of his delegation took a hydrofoil tour of the Port of Seattle, the world's second largest container port after Rotterdam, according to Port officials. Deng spent several hours in Seattle with Transportation Secretary Brock Adams. The two leaders discussed possible ways in which the US could assist the Chinese in civil aviation, primarily through improved air traffic control facilities.

Vice Premier Fang Yi's Houston itinerary included the Texas Medical Center, where he observed a coronary bypass operation. Fang then made a side visit to Los Angeles, where he toured a McDonnell Douglas plant and also paid a visit to Disneyland. Fang, the man charged with overseeing China's science and technology, discussed China's modernization plans with a reporter on his flight from Houston to Los Angeles. Asked about constraints on China's ability to import advanced foreign technology, Fang said, "We have to consider whether or not we have technicians and skilled workers to handle these sophisticated technologies."

Noting that China will not import technology blindly, Fang said, "We will import only those features which are useful to us, and not those which do not suit the conditions in our country." Asked whether he saw a possible contradiction between the concepts of "self-reliance" and "learning from abroad," Fang responded, "Our policy is one of relying mainly on our efforts, while seeking, if possible foreign assistance." Referring to ecological problems caused by industrialization in the West, Fang said, "We want to absorb those things from you which are good and advanced and try our best to avoid the unfortunate aspects." 字

Deng with the Osmond Brothers and Marie at Washington reception

At NASA briefing on space shuttle



Madame Zhuo Lin sees Smithsonian neons


Deng Xiaoping, Fang Yi inspect Hughes drill bits in Houston


Vice Premier Fang Yi at Georgia Tech


Fang Yi receives official welcome from Los Angeles

Charles Forsyth of Douglas Aircraft toasts Fang Yi at Long Beach reception for China's State Science and Technological Commission chief


Deng Xiaoping with Boeing Chairman Thornton Wilson inside one SP 747 bound for China


THE WHITE HOUSE

WASHINGTON

February 21, 1979

To Christopher Phillips

I want to express my thanks to you and your colleagues at the National Council for U.S.-China Trade for sponsoring the Performance of American Arts at the Kennedy Center on January 29 in honor of Vice Premier Deng Xiaoping of the People's Republic of China.

We greatly appreciate this important contribution made by the National Council and its member firms to the success of Vice Premier Deng's visit to Washington.

I wish the Council every success in its continuing efforts to expand mutually beneficial trade between the United States and the People's Republic of China.

Sincerely,

Jimmy Carter

Mr. Christopher H. Phillips
President
National Council for
U.S.-China Trade
1050 Seventeenth Street, NW.
Washington, D.C. 20046

Letter from the White House to the National Council

Council Activities

Normalization of Sino–US relations resulted in an explosion of interest and activity for National Council members and staff during the weeks following New Year. Amidst a period when the Council's telephones were ringing as never before, arrangements were being made for the Gala Performance of Performing Arts sponsored by the Council at the Kennedy Center in honor of the official visit of Deng Xiaoping. And schedules for some twenty-five delegations to and from the PRC were being set up.

TRADE EXPECTATIONS SOAR WITH NORMALIZATION

The feverish pace of China trade activity during the second half of 1978 reached a climax on December 15 with the announcement that the United States and China would officially normalize relations on January 1. The announcement prompted a deluge of telephone calls to the National Council during the next six weeks from member companies eager to take advantage of the new relationship between the two countries, as well as from other firms.

This activity reached a peak on January 29 with the arrival of China's Vice Premier Deng Xiaoping in Washington. A gala celebration at the Kennedy Center in honor of Deng and his entourage was hosted by President Carter and sponsored by the National Council. The performance followed a state dinner at the White House. In addition to about 800 representatives of National Council firms, attendees included most members of Congress and the Cabinet, along with key White House aides and other members of the executive branch of the government.

William Hewitt, chairman of the National Council's Board of Directors from 1975 to 1978, served as program chairman for the Kennedy Center event. The National Council regrets that some member companies did not receive invitations due to the shortage of space. The Council's Washington office was flooded with telegrams from member firms in the week after National Council President Christopher H. Phillips cabled all members advising them of the strict limitations on seating. All invitations were allocated within two working days of his cable.

The highlight of the Kennedy Center show was a surprise showing by the Harlem Globetrotters, introduced, as Sen. John Glenn explained, because of the vice premier's well known love for the sport. Country singer John Denver and pianist Rudolph Serkin gave renditions of two very different aspects of the American musical tradition—country pop and Schubert. A rollicking display from the Joffrey Ballet dancing "Rodeo," to music by Aaron Copland and Agnes de Mille's choreography, and "I love Beijing's Tian An Men Square," sung by the National Cathedral Children's Choir, completed a joyous presentation. MCs for the event included Dick Cavett, Senator Glenn, Shirley MacLaine, and I. M. Pei.

Directors of the National Council attended a reception at the White House in honor of Deng prior to the Kennedy Center performance. After the show, the National Council hosted a reception for 1,500 people upstairs at the Kennedy Center in the Atrium. Deng's entourage included Fang Yi, Minister in charge of the State Scientific and Technological Commission, Foreign Minister Huang Hua, and Ambassador Chai Zemin. Ambassador Leonard Woodcock, chief of the US Liaison Office in Peking, accompanied Deng to the reception and throughout Deng's eight-day tour of the US.

William Hewitt with Council President Phillips, George Krieger, and David Rockefeller at State Department

CABINET BRIEFING ON TRADE IMPLICATIONS OF NORMALIZATION

In order to answer businessmen's questions about post-normalization policy toward US trade with China and Taiwan, the State Department arranged a high-level briefing for businessmen in Washington one month after the decision to normalize relations with China was announced. All member firms of the National Council were invited to send a representative to the meeting at the State Department on January 15. About 800 businessmen attended the meeting.

Secretary of State Cyrus Vance gave the keynote address, in which he discussed events leading up to normalization and the specific concerns voiced by the Carter Administration in negotiations with the Chinese prior to the establishment of full diplomatic relations. In urging the businessmen to support President Carter's normalization decision, Vance cited several important economic benefits that would flow from the establishment of full relations with Peking.

"These include our participation as a regular supplier of agricultural commodities to China, the ability of US exporters to compete on an equal basis with our suppliers, and the resumption of shipping, air, banking, and other normal economic relations with China," Vance said. The Secretary also discussed the unofficial organization to be called the American Institute in Taiwan which will handle economic, cultural, and other relations with Taiwan on a nongovernmental basis once the necessary legislation is passed by Congress.

Also speaking at the briefing were Treasury Secretary W. Michael Blumenthal, Commerce Secretary Juanita M. Kreps, and National Security Adviser Zbigniew Brzezinski. Richard Holbrooke, Assistant Secretary of State for East Asia, joined Kreps and Blumenthal in a lengthy question-and-answer session.

In his prepared remarks, Blumenthal noted that the US now has the opportunity "to begin making up lost ground" in competing with other industrialized countries for the China market. Blumenthal stated, however, that "we still have many obstacles to overcome," and cited the claims/assets problem and the absence of most-favored-nation status and credit facilities as problems hindering the full development of trade between the US and China.

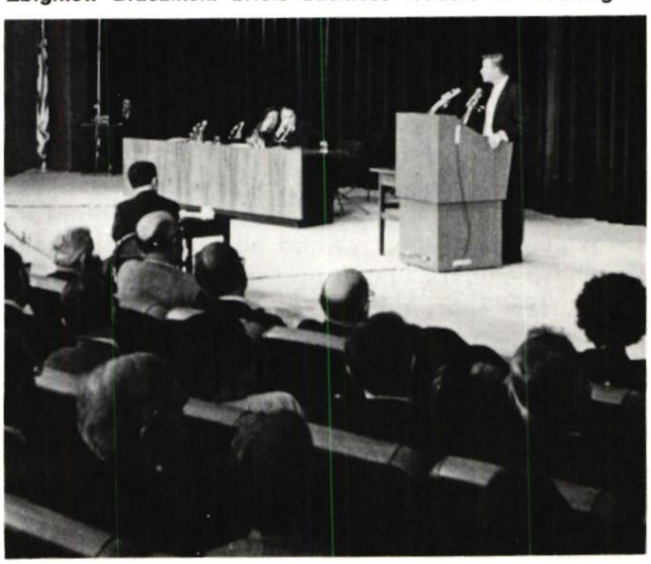
He said the visit of Vice Premier Deng would lead to an ongoing dialogue on these matters that would be continued during his own trip to China in late February and by Secretary Kreps on her mission to the PRC in late April. Blumenthal also said the Carter Administration gives the highest priority to maintaining its commercial commitments with Taiwan, which he described as "one of the most striking examples in the world today of successful rapid economic development."

Secretary Kreps estimated that Chinese import of complete plants alone will total $50 billion between 1978 and 1985. She added that the full capital equipment bill for the same period could run $70–85 billion and that US exports over the next five years may total $10 billion. But Kreps also urged businessmen to be realistic about the China market. "Under the best conditions this trade will be highly competitive, and other industrial trading countries, utilizing in some cases extremely low-interest credits, already have won a significant share of the market," she said.

Kreps also stated that there are marked limitations on Chinese hard currency earning capacity. She said the primary goal of her China trip in April "will be to obtain Chinese agreement on the conditions under which private and governmentally-sponsored commercial operations will be conducted." Kreps said she hopes to discuss the possible establishment of a Governmental Business Development Center in Beijing (Peking).

The overall geopolitical implications of America's new relationship with China was the subject of Dr. Brzezinski's talk. Brzezinski described normalization "as having long term, historic significance. For the first time in decades," he said, "we can enjoy simultaneously good relations with both China and Japan."

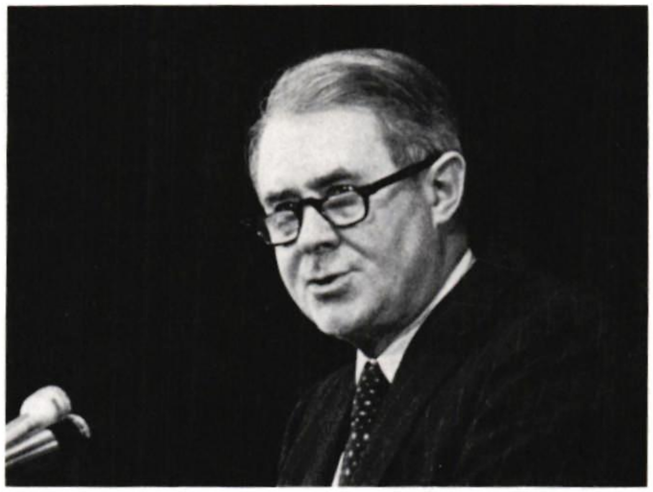
Zbigniew Brzezinski briefs business leaders in Washington



During the ninety-minute question-and-answer session, Secretaries Blumenthal and Kreps, along with Assistant Secretary Holbrooke, fielded a wide range of questions from businessmen eager to learn about administration plans for handling such issues as export controls, MFN, banking arrangements and Taiwan. Kreps told the audience that normalization would not alter the administration's position regarding export controls. Blumenthal noted that the 1974 Trade Act requires a bilateral trade agreement before a country can be eligible for most-favored-nation status, while Holbrooke handled a number of questions concerning the future status of American relations with Taiwan.

In response to a question from National Council President Christopher H. Phillips, Blumenthal said he expected to discuss the possibility of joint equity investments between US companies and the Chinese. Blumenthal said it is "in our interest to encourage such developments."

The obvious interest of both businessmen and the press packing the large auditorium prompted State Department spokesman Hodding Carter, who moderated the three-hour session, to observe that the meeting had achieved a response rate "400 percent higher" than any other briefing he had conducted in his two years with the government. Secretary Vance hosted a reception for the businessmen after the briefing.


Secretary of State Vance giving keynote address at January 15 State Department briefing on normalization

CONSTRUCTON DELEGATION A BOOMING SUCCESS

Members of the National Council's first construction equipment delegation didn't exactly have fireworks on their mind as they entered China on December 1, but they certainly went out with a bang. Celebrating both the normalization of US-China relations and a successful series of meetings with Chinese officials, including one with Vice Premier Ku Mu, the 28-member team entertained their Chinese hosts with a sumptuous banquet and fireworks celebration in Guangzhou (Canton) on December 17, the group's final night in China.

The focus of the visit, sponsored by the China Council for the Promotion of International Trade (CCPIT), consisted of technical seminars in Beijing (Peking) attended by over 150 Chinese end-users from all over the country.

The delegation from the National Council's Construction Equipment Committee was hosted at the Great Hall of the People in Beijing by Ku Mu, Chairman of the State Capital Construction Commission (SCCC). The SCCC is charged with the detailed planning, and overseeing of the 120 major projects in the PRC's current modernization program.

The SCCC accepted an invitation from the National Council to visit the US in the fall of 1979. The dialogue between the American construction industry and the Chinese will be carried on during the spring by three Council-sponsored construction equipment delegations, each consisting of seven companies. The delegations are scheduled to visit China in March, April, and May, while the Council may also send a fourth such mission to the PRC later.

Meetings were held in Beijing with officials of the State Planning Commission, the SCCC, the CCPIT, and the East Special Equipment Corporation.

Members of the delegation also met with officials of China's Ministries of Coal, Metallurgical Industries, First Machine Building, Railways, and Water Conservation and Power. Most group members had meetings with senior representatives of MACHIMPEX and TECHIMPORT.

While in China the delegation gained valuable insight into the characteristics and organization of China's construction equipment and construction industries. Industrial management and organization were discussed at several of the factories visited by the group.

At some of the place toured, solid output target figures for 1980 and 1985 were disclosed by the Chinese.

The group, which included 19 senior engineers from 10 US companies, was impressed by the standard of engineering design of the excavators and hydraulic truck cranes. Members of the delegation discussed various types of technology transfer, including licensing and joint ventures. Possibilities for equity joint ventures were of particular interest to the Chinese authorities.

The group, which was led by Stewart Roberts, Jr., of Clark Equipment Company, visited Shanghai, Guangzhou (Canton) and Guilin after leaving Beijing.

Other companies participating in the mission were Caterpillar, FMC, Harnischfeger, International Harvester, JI Case, John Deere, the Terex Division of General Motors, and WABCO. Nicholas Ludlow of the National Council staff escorted the delegation.

The National Council's Construction Equipment Delegation with Ambassador Woodcock on front steps of the Peking Hotel, December 9

PETROLEUM CORPORATION VISITS US

Zhang Wenbin, president of the Petroleum Corporation of the People's Republic of China, led a nine-person delegation for a two-week visit to the US beginning March 3. Expressing particular interest in seismic data centers and exploration and production research facilities, the delegation visited the following companies: Allied Chemical, AMOCO, ARCO, Caltex, Continental Oil, Exxon, Gulf, Hunt-Sedco, McDermott, Mobil, Natomas, Pennzoil, Phillips Petroleum, Pre Corporation and Union Oil. The group was also scheduled to meet with Secretary of Energy James Schlesinger, and to discuss tax questions with Treasury Department officials. Stephanie Green of the National Council escorted the delegation.

COMPUTER MISSION

The Yan Shan Corporation sent a trade mission to the US on February 26 for the specific purpose of investigating and buying computers and related peripheral material. The delegation, led by Li Qian ming, also was interested in image display systems, alphanumeric display systems, and Chinese display terminals. Companies visited by the mission included Aydin Controls, General Electronic, Honeywell, Itel, Memorex, Tektronix, and Wang Laboratories.

TELECOMMUNICATIONS TEAM VISITS

A 10-member team from the Posts and Telecommunications Equipment Corporation arrived in the US February 24 for a visit that included the Intelcom 79 Exhibition in Dallas and visits to selected members of the National Council's Telecommunications and Electronics Committee. The corporation is under the jurisdiction of the Ministry of Posts and Telecommunications.

CANNED FOODSTUFFS GROUP

CEROILS was expected to send a canned foodstuffs selling mission to the US in late February or early March.

WOOD PROCESSING DELEGATION

The National Council hosted a 14-member wood processing technical survey team from TECHIMPORT from January 25 to February 17. The delegation, led by Yang Yansen, deputy general manager of the China National Forestry Machinery Equipment Corp., was interested in production technology and equipment, plywood, particle boards, and fiberboards.

A herbicides delegation sponsored by the China National Chemical Construction Corporation arrived in the US March 20 for a four-week inspection tour of US technology in herbicides, pesticides, and insecticides.

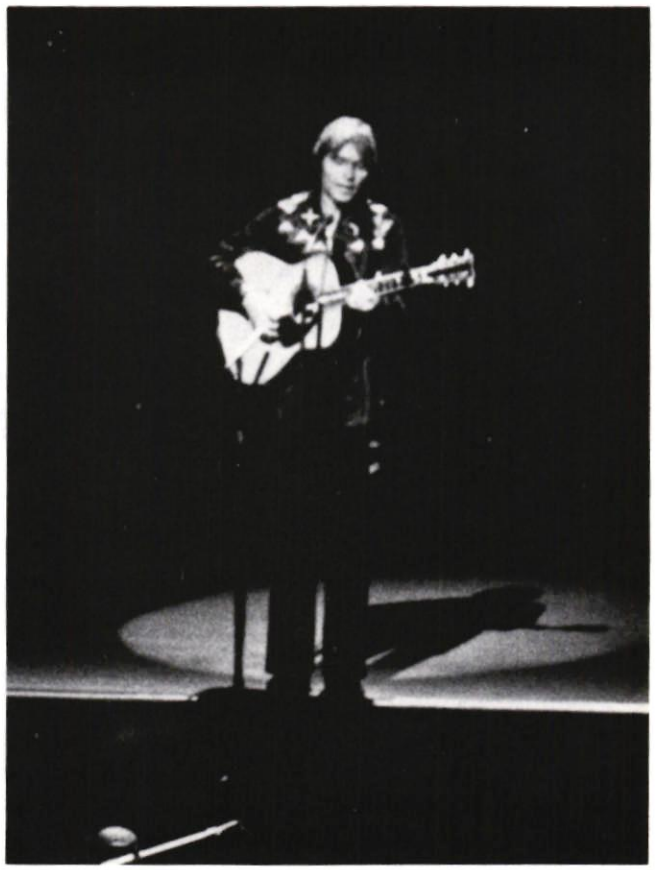
The Chinese are also expected to send pharmaceuticals, textiles, and light industry teams in March, non-ferrous mining and petrochemicals delegations in April, while an agricultural machinery mission is tentatively set for a September visit to the US. The ministry of Communications has been invited to send a delegation in April.

In addition to the three construction teams that the Council will send to China this spring, the Council is planning petroleum and mining missions in May, pharmaceuticals and animal husbandry groups in June, and a petrochemicals delegation in July.

COMMITTEE MEETINGS

The various industrial committees of the National Council responded to President Carter's normalization announcement with a full schedule of meetings during the early months of 1979.

THE KENNEDY CENTER GALA

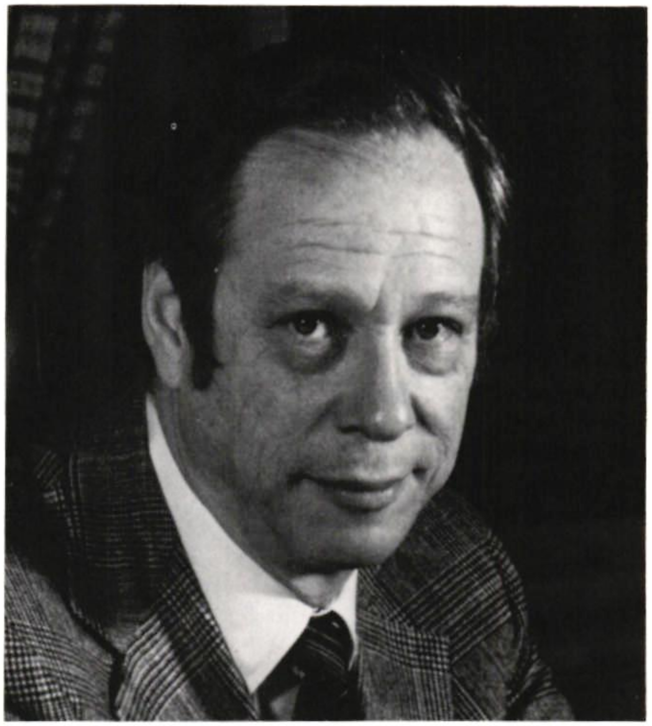


Seated in the Presidential box with President and Mrs. Carter are (from left to right) Vice Premier Fang Yi, Vice President Mondale, Madame Deng and Vice Premier Deng, Chinese Foreign Minister Huang Hua, and House Speaker Thomas P. "Tip" O'Neill. At center left the Harlem Globe Trotters unfurl Chinese banner welcoming Vice Premier Deng. The Monday evening performance also featured John Denver, whose music is heard on Peking Radio, and the cast of "Eubie"

Ron David: News Photo

Clockwise from top left Sponsor and Host: William Hewitt, former National Council Board Chairman, greeted by President Carter at pre-gala White House reception. Opening the program Li May Phipps, Director of the National Council's Translation Services, with George Stevens, Jr. producer of the show. At reception after gala: Council President Christopher Phillips with Charles Rostov, President of Trans-Ocean Import Company. Waving farewell: Deng and President Carter center stage with the full cast. John Brizendine, Chairman of the National Council's Board of Directors at reception. Vice President Mondale and Chinese Foreign Minister Huang Hua greeting guests at reception following gala

An Interview with W. Michael Blumenthal, Secretary of the Treasury



Treasury Secretary Blumenthal

"I get the impression that he has no illusions about the problems that have to be overcome . . . I think he's the kind of person that Americans can do business with."

Secretary of the Treasury W. Michael Blumenthal on China's Vice Premier Deng Xiaoping.

Secretary Blumenthal, who spent part of his early years in China, is now in China discussing a range of issues relating to the normalization of our economic relations with China, including claims/assets, Exim Bank financing, joint ventures in the PRC, and a Sino-US trade agreement.

While emphasizing China's seriousness in wanting to open up trade with the United States, Secretary Blumenthal cautions that "no market explodes. Markets grow gradually . . . I think we will see the numbers increase at a good rate (but) they will not be fantastic, they will not go into the sky."

He talked about these issues and prospects for Sino-US business relations with CBR *editor Nicholas Ludlow and deputy editor Stephanie Green before his departure for Peking.*

What are your impressions of Deng Xiaoping? We understand you had two hours with him today.

I am very impressed by the openness, and directness of his approach. He seems to be a man who is practical and positive. He wants to confront problems and try to solve them. He is intent on moving his country forward on the path to modernization and development as quickly as is feasible.

I get the impression that he has no illusions about the problems that have to be overcome. He wants to move ahead in trying to overcome some of them; so it's very easy to talk to him in discussions. And I think he's the kind of person that Americans can do business with.

The principal items on your agenda have to do with economic relations with the People's Republic of China. What form of claims/assets settlement do you expect to reach?

One that provides the maximum benefits to US claims, in the context of removing a thorny and difficult issue which has been unsettled between the People's Republic and the United States for many years. In that context, I obviously want us to reach the best possible deal from the point of view of the US claimants, and one that is politically acceptable within the Congress and to the business community, and the other interested parties. We're quite flexible on the form that it takes, but what counts is the end result.

Generally speaking, there are a number of possibilities for reaching a claims/assets settlement. We have concluded claims/assets settlements with five East European countries and each one is different. It's really premature to tell whether we'll do it in one form—through an assignment of mutual claims or use some other means—whether we'll use as a model what we did with the Soviets or what we did with the Yugoslavs, or the Hungarians. I have had a couple of discussions with my Chinese counterparts and the matter was generally touched on when the President and the Vice Premier met.

Is there serious Chinese intent on resolving claims/assets?

It is very clear that the Chinese share with us the desire to deal with this problem. There is a mutual recognition that it is a priority item, that it has to be dealt with before other matters are settled.

What legislation is required?

No specific legislation is required to make the actual agreement. However, it may be desirable to have legislation to implement any agreement reached. So obviously it is necessary to keep the Congress informed and involved.

But it isn't that we first make a deal with the Chinese, and then try to sell it to the Congress. When we make a deal with the Chinese, it will be on the basis of our knowledge that it would be acceptable to the Congress. Now, we can't always be 100 percent sure, but our contacts with the people in the Congress give us a pretty good idea as to what they will and will not accept.

Some enabling legislation may be required. The juxtaposition of some of these assets, and the title to those assets has to be clarified. That may require legislation.

What do you think would be politically acceptable?

The larger the amount that can be distributed to American claimants, the more politically acceptable it will be. Obviously 5 cents on the dollar is a lot less acceptable than 95 cents on the dollar.

The most important point is that the claims/assets question has to be settled before we can have normal commercial relations. The claims/assets problem has been recognized as an important first step, one the two leaders have identified as a priority issue to be solved, and to be solved quickly. That's what we're trying to do.

In your speech on January 15th you said, "We can ill afford to cast a blind eye to the vast potential for exports provided by the Chinese." What action will the Administration take to make US Exim Bank financing facilities available to US companies selling to China?

Well, the statement I made, of course, was a more general one. It does not mean that we have to rush out and extend huge credits to the Chinese. What I was saying was that we are now, as regards non-agricultural exports, not taking advantage of the existing and emerging opportunities in the Chinese market, and we can ill-afford not to take advantage of them. As you know, the President expressed his concern that we boost US exports in his Export Expansion Program last fall.

What I meant was that we will now be able to take better advantage of China's markets as the normalization of relations proceeds. But the actions that are required are, first of all, removal of the cloud that hangs over all of this as a result of the claims/assets question.

Secondly, we need to negotiate a trade agreement—a trade agreement that lays a foundation for expanded trade with regard to facilities, with regard, I hope, to the question of MFN, and with making available the possibility of extending official credits, export-import credits, to the People's Republic of China. We are now precluded from providing official credit.

We will take it step by step. We will try to deal with the claims/asset issue. We will then try to move ahead to negotiate aviation and shipping agreements. We will, simultaneously, begin to explore the framework and the details of the trade agreement which will, of course, have to go through the Congress.

Incidentally, there's not enough in the fiscal 1980 budget to permit Exim Bank credits to China. We first have to meet the requirements of the 1974 Trade Act which makes that possible, and then we have to go and ask for an appropriation.

The total amount of loans available from the Export Import Bank in fiscal 1980 is $4.1 billion. And that's for the entire world. So you can see that the additional resources that the Congress might make available are going to be needed. I think the Chinese realize that. I think they are equally interested in private credit, commercial credit. I think they seem to be interested in joint ventures of various kinds. In some arrangements, the product of the venture can be used to pay back some of the funds that have been advanced.

So this isn't just a matter of official Export-Import Bank credits at issue here. There is a whole range of different systems that can be set up in order to get into mutually profitable business arrangements.

The Exim Bank financing is of particular interest. We're hearing about deals of massive size involving U.S. Steel, Bethlehem Steel, Fluor . . . The financing arrangements for most of these are still being worked out.

I think any of those companies, or any others, would be ill-advised to count on the early availability of large chunks of Export-Import financing. There is a lot of ground that has to be covered before we reach the point where such credits would be available in theory—legally available, legally possible. And then actual amounts that the Congress will make available are open. I would doubt that we can look for anything but a gradual development of that.

There are also the questions of what a country can absorb, and hope to finance. If you take on an obligation, you have to service the debt. And the possibilities for absorbing the resources, absorbing the debt, paying it back, all have to be taken into account.

I hope that Export-Import credit will be available in time. Certainly we ought to look forward to that date. But it is not something that is going to be there quickly, or in very large amounts.

How will companies be able to finance their deals in the interim?

There are a number of ways—perhaps not as attractive as with government credit—but still commercial financing is available and in some circumstances barter or buy-back schemes can be tried. It is also interesting to note that despite all that trade activity we hear about with the Chinese, very little actual credit has been extended.

For example, the French and Japanese trade agreements, while establishing a facilitative framework for credit extension, have not yet resulted in any lines of credit. The Chinese don't seem to be in any rush. They have told visitors that their reserves are adequate for the near term.

How much credit do you think the Chinese will actually need?

I'm glad you asked that, I think there is a natural tendency to be taken with what I might term "China Fever" and equate reports of Chinese interest with contracts. I think one has to sit down and take a close look at their domestic absorptive capacity, their export drive and potential, and particularly at their traditional conservative approach to financing. I expect the Chinese will keep a close hold on their debt service. They are sound financial managers.

Do you think China will take steps to join the IMF?

Well, it has not been said directly to us.

In joining the IMF there are many important and difficult legal and financial problems to be worked out. When you join the IMF you not only get benefits, you also assume obligations. For example, you have to agree to make a certain amount of money available. You have to carry out the obligations of a member to get the rights of a member. Generally this is not something that happens overnight. So if the Chinese have an interest in this, we would no doubt be glad to discuss it with them and take it from there. Chinese membership in the IMF will have to develop gradually over time, not immediately.

There's also the statistical reporting requirement.

You're quite right. As I said, there are all kinds of obligations. One of these obligations requires that specific data on member's economies be provided.

Some countries have been reluctant to provide this information. I don't know whether the Chinese have reached the point where they feel they would like to participate.

Some US companies have reached an early stage of agreement concerning equity joint ventures with the Chinese, I understand. And some of the arrangements that are being discussed are very substantial. What arrangements do you think the US will make to guarantee those investments? Will there be US investment guarantees available in China?

Well, I doubt that we will have special legislation. I think that would have to fit in under what existing legislation is available.

There is of course a big difference between discussing deals and actually closing them. And I get the impression there's a lot of interest and activity now in discussing various deals, but that some people may be jumping too quickly to the conclusion that it means deals are actually being made.

Obviously, if you simply add up the amounts involved in some of the deals being discussed, you begin to very soon reach the point where you ask yourself whether China can that quickly absorb and handle the tremendous strains on the economy that all of these things would impose. As I said earlier, I think the Chinese will keep it under control.

The quest for joint ventures is a meeting of two economic systems . . .

I think it can be done. I explored ideas of this kind with other socialist countries while I was chairman of Bendix. A socialist country that has a sincere interest in taking in a partner from a free market economy, such as the United States, benefits from its partner's technological and managerial know how.

There are real possibilities. But it requires very careful, and sometimes lengthy, negotiations as to exactly what the rights of the minority partner are with regard to managing, employment practices, quality standards. The percentage of the output that is to be exported and the markets to which it can be exported, and the protection of the trademarks involved.

Have you discussed this with Deng Xiaoping?

No. I just was encouraged by his mention of the desire for joint ventures. But the details of such arrangements were not discussed.

Will you be negotiating a tax treaty during your visit to China?

No. The importance of a tax treaty will increase as our business activities in China expand. However, prior to negotiating a tax treaty we will need to find out more about each other's tax structures. We do intend to exchange views on tax practices during our trip.

You've said you expect to have preliminary talks with the Chinese about negotiating a trade agree-

ment. How do you see this developing, what kind of timing do you think is likely?

I think there will have to be a number of sessions involving various members of the Cabinet. There are many matters that relate to the activities for which Secretary Kreps has primary responsibility. There are some that are under the responsibility of this Department and others for which Robert Strauss as the Special Trade Representative has responsibility. And the Department of State obviously has a role.

I would be surprised if we were able to put together a trade agreement to present to the Congress before, at the earliest, the latter part of this year. And even then it's difficult to say how quickly the Congress would act on it. Trade agreements are not typically negotiated in a month or two.

And then, once it goes to Congress, how long do you expect it will take?

Well, your guess is as good as mine when it comes to an estimate as to how long it takes Congress to pass a piece of legislation. They can do that in two or three months, or they can do it in six or nine months. You really can't tell.

It really depends on the circumstances at that time, it depends on what's happening and how the normalization of the relationship has developed, including whether the Congress is reassured on the question of how Taiwan will be handled. It will depend on the conditions under which MFN and credits would be extended, what we get out of the agreement, and the safeguards against market disruption in the United States.

Obviously there are certain industries in the United States that are particularly concerned about imports of products that have a lot of labor input, that are labor intensive. Textiles come to mind.

So Congress will want to examine all those things and be reassured. To negotiate all of that into a trade agreement will take some time.

Are the Chinese showing serious interest in negotiating a trade agreement?

Very much. They want to move as fast as possible.

They want to move the whole economic package?

The appear eager to do so.

We're presently going through another round of euphoria as we did in 1972 after the first round of opening up with China. How do you view the overall business potential for American businessmen who currently are trying to think of anything that they can sell to China to take advantage of China's modernization program.

Well, I think that there is every indication that the present government leadership in China is very serious about opening up their economy to greater trade and investment relations with other countries, particularly with the United States. I think that they're serious about training and educating a large number of their citizens to be capable of improving the output of China, running a more modern economy, and about genuinely widening substantially the exposure of China to modern technology and science through the exchange of people and through learning, so that they can develop the country.

I think that is, indeed, a very, very good development. It opens up to the United States, and to American business, considerable potential for an important market and for business deals that will lead to profit. So that is certainly something that if we look back a few years, we can be happy about. I wouldn't want to use the word euphoric, but we have every reason to be very content and happy about that. I think that's good for the Chinese people, and it's good for the American people.

For someone like myself who spent so many years living in China, it's certainly a good thing to see. That kind of peaceful development takes great time.

Having said that, I'm old enough and realistic enough to know this kind of important development does not remove, in one fell swoop, the many practical problems and difficult realities that are in the picture. We have spent the better part of an hour going through some of them. We have noted that a trade agreement is a complicated matter that takes about a year to negotiate, it's going to have to go through the Congress. We have talked about limitations of credit availability from official sources. We have indicated that private businessmen will want to be careful about extending their own credit on commercial terms, that they will have to assess carefully the risks and, the absorptive capacity of the People's Republic and realize that not all deals can be done simultaneously.

There are a lot of practical problems. There are requirements which must be met under the Trade Act, that lead not only to an economic, but also a political debate that always takes place in our Congress on these matters.

Moreover, no market explodes. Markets grow gradually. And while it is indeed true that there are perhaps as many as a billion souls in China, you cannot take that as the only measure of what the real potential of the market is. I think what you can look forward to is a growth that certainly exceeds the average growth you find in other parts of the world, at least for some time. We're starting at a very low base, of course, so that isn't not so surprising. But if things go well, the American business community can look forward to pretty good growth each year in the market that is available to us and, for which we can compete.

Thank you very much. 完

Architects of the Sino-American Science and Technology accords: Dr. Frank Press, Science and Technology Advisor to President Carter, and Ann Keatley, of the Executive Office of Science and Technology Policy

SINO-US AGREEMENTS

Signed During the Deng Visit

SCIENCE & TECHNOLOGY

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA ON COOPERATION IN SCIENCE AND TECHNOLOGY

The Government of the United States of America and the Government of the People's Republic of China (hereinafter referred to as the Contracting Parties);

Acting in the spirit of the Joint Communique on the Establishment of Diplomatic Relations between the United States of America and the People's Republic of China;

Recognizing that cooperation in the fields of science and technology can promote the well-being and prosperity of both countries;

Affirming that such cooperation can strengthen friendly relations between both countries;

Wishing to establish closer and more regular cooperation between scientific and technical entities and personnel in both countries;

Have agreed as follows:

Article 1

1. The Contracting Parties shall develop cooperation under this Agreement on the basis of equality, reciprocity and mutual benefit.

2. The principal objective of this Agreement is to provide broad opportunities for cooperation in scientific and technological fields of mutual interest, thereby promoting the progress of science and technology for the benefit of both countries and of mankind.

Article 2

Cooperation under this Agreement may be undertaken in the fields of agriculture, energy, space, health, environment, earth sciences, engineering, and such other areas of science and technology and their management as may be mutually agreed, as well as educational and scholarly exchange.

Article 3

Cooperation under this Agreement may include:

a. Exchange of scientists, scholars, specialists and students;

b. Exchange of scientific, scholarly, and technological information and documentation;

c. Joint planning and implementation of programs and projects;

d. Joint research, development and testing, and exchange of research results and experience between cooperating entities;

e. Organization of joint courses, conferences and symposia;

f. Other forms of scientific and technological cooperation as may be mutually agreed.

Article 4

Pursuant to the objectives of this Agreement, the Contracting Parties shall encourage and facilitate, as appropriate, the development of contacts and cooperation between government agencies, universities, organizations, institutions, and other entities of both countries, and the conclusion of accords between such bodies for the conduct of cooperative activities. Both sides will further promote, consistent with such cooperation and where appropriate, mutually beneficial bilateral economic activities.

Article 5

Specific accords implementing this Agreement may cover the subjects of cooperation, procedures to be followed, treatment of intellectual property, funding and other appropriate matters. With respect to funding, costs shall be borne as mutually agreed. All cooperative activities under this Agreement shall be subject to the availability of funds.

Article 6

Cooperative activities under this Agreement shall be subject to the laws and regulations in each country.

Article 7

Each Contracting Party shall, with respect to cooperative activities under this Agreement, use its best efforts to facilitate prompt entry into and exist from its territory of equipment and personnel of the other side, and also to provide access to relevant geographic areas, institutions, data and materials.

Article 8

Scientific and technological information derived from cooperative activities under this Agreement may be made available, unless otherwise agreed in an implementing accord under Article 5, to the world scientific community through customary channels and in accordance with the normal procedures of the participating entities.

Article 9

Scientists, technical experts, and entities of third countries or international organizations may be invited, upon mutual consent of both sides, to participate in projects and programs being carried out under this Agreement.

Article 10

1. The Contracting Parties shall establish a US-PRC Joint Commission on Scientific and Technological Cooperation, which shall consist of United States and Chinese parts. Each Contracting Party shall designate a co-chairman and its members of the Commission. The Commission shall adopt procedures for its operation, and shall ordinarily meet once a year in the United States and the People's Republic of China alternately.

2. The Joint Commission shall plan and coordinate cooperation in science and technology, and monitor and facilitate such cooperation. The Commission shall also consider proposals for the further development of cooperative activities in specific areas and recommend measures and programs to both sides.

3. To carry out its functions, the Commission may when necessary create temporary or permanent joint subcommitees or working groups.

4. During the period between meetings of the Commission, additions or amendments may be made to already approved cooperative activities, as may be mutually agreed.

5. To assist the Joint Commission, each Contracting Party shall designate an Executive Agent. The Executive Agent on the United States side shall be the Office of Science and Technology Policy; and on the side of the People's Republic of China, the State Scientific and Technological Commission. The Executive Agents shall collaborate closely to promote proper implementation of all activities and programs. The Executive Agent of each Contracting Party shall be responsible for coordinating the implementation of its side of such activities and programs.

Article 11

1. This Agreement shall enter into force upon signature and shall remain in force for five years. It may be modified or extended by mutual agreement of the Parties.

2. The termination of this Agreement shall not affect the validity or duration of any implementing accords made under it.

DONE at Washington this thirty-first day of January 1979 in duplicate in the English and Chinese languages, both equally authentic.

CONSULAR RELATIONS

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA ON THE MUTUAL ESTABLISHMENT OF CONSULAR RELATIONS AND THE OPENING OF CONSULATES GENERAL

The Government of the United States of America and the Government of the People's Republic of China agree to establish consular relations, open consular offices by each side in the other's territory, promote the well-being of each side's citizens in the other's territory, and foster family reunion, tourism, commercial, scientific-technological, cutural and other relations between the peoples of the United States and China. The Government of the United States of America agrees to the opening of Consulates General by the Government of the People's Republic of China in San Francisco and Houston. The Government of the People's Republic of China agrees to the opening of Consulates General by the Government of the United

States of America in Guangzhou and Shanghai. For practical arrangements, see Annex. These Consulates General will be opened at mutually agreed times in the future.

DONE at Washington this thirty-first day of January 1979 in duplicate in the English and Chinese languages, both equally authentic.

ANNEX ON PRACTICAL ARRANGEMENTS

The Government of the United States of America and the Government of the People's Republic of China agree that consular relations will be conducted on a basis of reciprocity and mutual benefit and in accordance with the general principles and practice of international law. In the event of disagreements, both governments undertake to resolve them through consultations in a spirit of mutual understanding and cooperation, drawing on the principles of customary international law embodied in the Vienna Convention on Consular Relations of 1963.

Pending entry into force of a Consular Agreement to be negotiated, the two sides agree to the following interim practical arrangements:

1. The two governments agree to facilitate the reunion of families and will process all applications as quickly as possible under mutually agreed arrangements and in accordance with each side's laws and regulations.

2. The two governments agree to facilitate travel between their respective countries of persons who may claim simultaneously the nationality of the United States of America and the nationality of the People's Republic of China. Exit formalities and documentation shall be dealt with in accordance with the laws of the country in which the person concerned resides. Entry formalities and documentation shall be dealt with in accordance with the laws of the country to which the person concerned wishes to travel.

3. United States citizens entering the People's Republic of China on the basis of United States travel documents containing Chinese entry visas will, during the period for which their status has been accorded, and in accordance with the visa's validity, be considered United States nationals by the appropriate Chinese authorities for the purpose of ensuring consular access and protection. Such persons shall have the right of departure from the People's Republic of China without further documentation, regardless of whether they may also be regarded as citizens of the People's Republic of China, nor shall they lose the right of consular protection or the right of departure without further documentation if the period of validity for which the status has been accorded has expired during the course of judicial or administrative proceedings which prevent their earlier departure.

4. Citizens of the People's Republic of China entering the United States using travel documents of the People's Republic of China containing United States entry visas will, during the period for which their status has been accorded, and in accordance with the visa's validity, be considered nationals of the People's Republic of China by the appropriate United States authorities for the purpose of ensuring consular access and protection. Such persons shall have the right of departure from the United States without further documentation, regardless of whether they may also be regarded as citizens of the United States, nor shall they lose the right of consular protection or the right of departure wihout further documentation if the period of validity for which the status has been accorded has expired during the course of judicial or administrative proceedings which prevent their earlier departure.

5. If a citizen of the sending country is arrested or detained in any manner, the authorities of the receiving country shall, without delay, notify the consular post or embassy accordingly of the arrest or detention of the person and permit access by a consular officer of the sending state to the citizen who is under arrest or detained in custody.

6. Persons residing in the People's Republic of China who are entitled to receive financial benefits from the Government of the United States of America shall receive their benefits under mutually agreed arrangements and in accordance with each side's laws and regulations.

7. Persons residing in the United States of America who are entitled to receive financial benefits from the Government of the People's Republic of China shall receive their benefits under mutually agreed arrangements and in accordance with each side's laws and regulations.

8. In addition to consular offices whose opening has already been agreed upon, the two sides agree to discuss the opening of consular offices in other cities as the need arises.

Secretary of State Vance and Chinese Foreign Minister Huang Hua at White House signing consular agreement

CULTURAL RELATIONS

CULTURAL AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA

The Government of the United States of America and the Government of the People's Republic of China,

Noting with satisfaction that better understanding between the peoples of both countries has been brought about through contacts and exchanges in culture, arts, humanities, journalism, sports, and other fields;

For the purpose of promoting wider contacts between the two peoples in the interest of consolidating and developing friendly relations between the two countries, and enhancing mutual understanding through encouraging and promoting cultural exchanges between the two countries in the spirit of the Joint Communique on the Establishment of Diplomatic Relations between the United States of America and the People's Republic of China, and on the basis of the principles of equality, reciprocity and mutual benefits;

Have agreed as follows:

Article I

The two governments will encourage a deeper knowledge of their respective histories, cultures, literatures, arts, languages, sports and other areas including attention to general knowledge in addition to more specialized study. Through cooperative programs as well as exchanges, the two governments will promote and assist their respective efforts to this end.

Article II

The two governments will encourage and facilitate further development of contacts and exchanges between the peoples of the two countries, including but not limited to interchanges between representatives of professional groups, cultural organizations, news and public information organizations, radio and television organizations and academic institutions and persons on the basis of shared interests.

Article III

The two governments will encourage, through mutually agreed programs and exchanges, enhanced understanding between the two peoples. Programs and activities to further this objective may include, but would not be limited to, the publication and distribution of books, magazines, and other printed materials; production and dissemination of films, recordings, and other audio-visual materials; as well as exhibitions relating to history, culture, arts and contemporary life; presentations of musical, dramatic and dance performances; and sports. In order to make such presentations and materials more readily understood in the other country, each government will encourage the development of activities such as translation programs.

Article IV

The two governments will encourage the broadest participation and support by non-governmental as well as governmental institutions for programs and activities covered by this Agreement.

Article V

On behalf of the Government of the United States of America, the Executive Agency for this Agreement shall be the International Communication Agency; on behalf of the Government of the People's Republic of China, the Executive Agency for this Agreement shall be the Ministry of Culture of the People's Republic of China.

The two Executive Agencies shall communicate with one another to review and assist in the implementation of this Agreement and may meet periodically as they may agree. They may reach understandings with one another regarding specific programs for agreed periods of time, which will guide the implementation of this Agreement.

The two Executive Agencies will encourage and facilitate, as appropriate, the development of contacts and cooperation between government agencies, institutions of higher learning, research institutes and other entities of the two countries and the conclusion of agreements between such bodies for mutually beneficial activities.

Article VI

This Agreement shall come into force on the date of signature for a period of five years. It shall be automatically renewed for another five years unless one of the Governments gives written notice of termination to the other at least six months prior to the expiration of the period, and shall be renewable accordingly thereafter.

DONE at Washington this thirty-first day of January 1979 in duplicate in the English and Chinese languages, both equally authentic.

ANNEXES

His Excellency
Fang Yi
Minister in Charge
The State Scientific and Technological Commission
Beijing

Dear Mr. Minister:

With reference to the Agreement Between the United States of America and the People's Republic of China on Cooperation in Science and Technology, signed in Washington today, it is the understanding of the Government of the United States of America that existing understandings in the fields of education, agriculture and space will become a part of the formal specific accords to be concluded in those fields under Article 5 of the Agreement.

Attached as annexes to this letter are the Understanding on the Exchange of Students and Scholars reached in Washington in October 1978, the Understanding on Agricultural Exchange reached in Beijing in November 1978, and the Understanding on Cooperation in Space Technology reached in Washington in December 1978.

If the Government of the People's Republic of China confirms this understanding and the texts of the understandings annexed hereto, this letter and the letter of confirmation of the People's Republic of China will constitute an agreement relating to these fields between our two governments.

Sincerely,
Frank Press, *Director*
Office of Science and Technology Policy

Students and Scholars

UNDERSTANDING ON THE EXCHANGE OF STUDENTS AND SCHOLARS BETWEEN THE UNITED STATES OF AMERICA AND THE PEOPLE'S REPUBLIC OF CHINA

An understanding on educational exchanges between the United States and China was reached in Washington, D.C. in October 1978 during discussions between the Chinese education delegation headed by Dr. Chou Pei-yuan, Acting Chairman of the PRC Science and Technology Association, and the U.S. education delegation headed by Dr. Richard C. Atkinson, Director of the National Science Foundation, as follows:

1. Both sides agreed they would pursue a program of educational exchange in accordance with and in implementation of the spirit of the Shanghai Communique;

2. There will be a two-way scientific and scholarly exchange which will provide mutual benefit to both countries;

3. The exchanges will include students, graduate students and visiting scholars for programs of research and study in each country;

4. The two sides exchanged lists of fields in which its students and scholars are interested and lists of institutions where they wish to work. Each side will use its best efforts to fulfill the requests of the other for study and research opportunities. Each side will expeditiously grant visas for such exchanges in accordance with its laws and regulations;

5. The sending side will pay the costs associated with its participants;

6. Both sides may take full advantage of any scholarships which may be offered;

7. Each side will be responsible for the implementation of the program in its territory, including responsibility for providing advice to the other side and relevant information and materials about the universities and research institutions concerned;

8. The two sides agreed that the students and scholars sent by both sides should observe the laws and regulations and respect the customs of the receiving country;

9. The Chinese side indicated it wishes to send a total of 500 to 700 students and scholars in the academic year 1978-1979. The United States side indicated it wishes to send 10 students in its national program in January 1979 and 50 students in its national program by September 1979 as well as such other numbers as the Chinese side is able to receive. Both sides agreed to use their best efforts to implement such programs;

10. To set each year the number of students and scholars to be exchanged and to discuss the progress of the program of exchanges, the two sides will meet when necessary. Consultation on important matters may also be held by the governments of the two countries. In addition, both sides will encourage direct contacts between the universities, research institutions, and scholars of their respective countries;

11. Both sides believe that the discussions mark a good beginning and have opened up the prospect of broadened opportunities for exchanges between the two countries in the fields of science, technology and education as relations between them improve. Both sides also believe that such exchanges are conductive to the promotion of friendship and understanding between their two peoples.

Agricultural Exchange

UNDERSTANDING ON AGRICULTURAL EXCHANGE BETWEEN THE UNITED STATES OF AMERICA AND THE PEOPLE'S REPUBLIC OF CHINA

During a visit to China of a delegation led by U.S. Secretary of Agriculture Robert Bergland in November 1978, discussions were held with Chinese officials which resulted in understandings concerning US-PRC agricultural exchange. It was agreed that it would be of mutual benefit to promote cooperation in agricultural technology, economic information, science and education, and trade in agricultural products, and that contacts between organizations and institutions of all types in these fields should be facilitated.

It was noted that study groups had already been exchanged in the fields of science and research, farm machinery, citrus fruits, wheat and vegetables. It was agreed that areas in which further exchanges should occur would include germ plasm (seed research and selection), biological control of pests, livestock and veterinary science, and agricultural education and research management methods. It was also agreed that, within the next two or three years, cooperation would be carried out in the fields of forestry, agricultural engineering, improvement of grasslands and management of pasturelands, cultivation of fruit trees, medicinal plants, and the application of remote sensing and computer technology to agriculture. Such cooperation would include mutual visits of, and joint research by, students, scientists and technicians.

The U.S. side agreed to facilitate contacts between officials of the People's Republic of China and U.S. manufacturers of agricultural equipment and supplies. Each side expressed its interest in the statistical methods of agricultural management of the other side. It was agreed also that, through the cooperator program of the U.S. Department of Agriculture, further discussions should be held regarding the products and technology best suited to conditions in China and that USDA teams would begin visiting China in early 1979. Reciprocal scientific teams from the PRC will also begin U.S. study visits in 1979.

It was agreed that the development of agricultural trade between the two countries was in the mutual interest and that its prospects were bright.

It was agreed that when study teams or technical trainees are exchanged on a one-for-one basis, the host country would pay in-country costs; and that when the exchange is not reciprocal, the sending country will pay all costs.

Space Technology

UNDERSTANDING ON COOPERATION IN SPACE TECHNOLOGY BETWEEN THE UNITED STATES OF AMERICA AND THE PEOPLE'S REPUBLIC OF CHINA

During a visit to the United States in November and December 1978 by a delegation headed by Dr. Ren Xinmin, Director of the Chinese Academy of Space Technology, an understanding in principle was reached with a delegation headed by Dr. Robert A. Frosch, Administrator of the National Aeronautics and Space Administration, on U.S.-Chinese cooperation in the peaceful utilization of space technology.

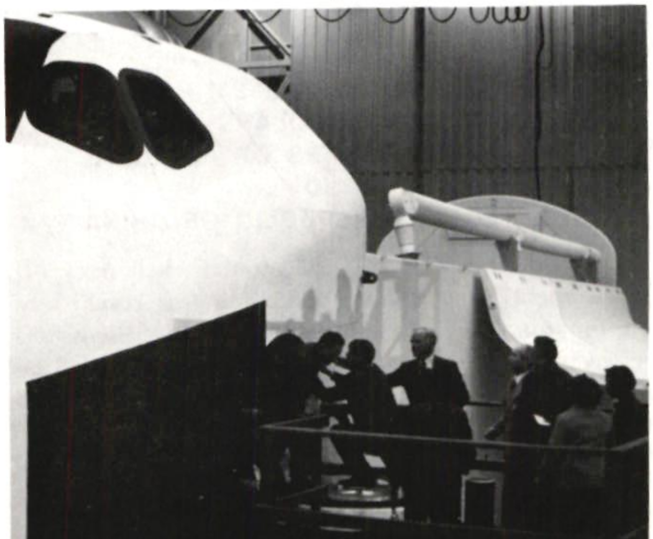
This understanding includes:

1. Cooperation in the development of the civil broadcasting and communications system of the PRC. The PRC intends, under suitable conditions, to purchase a U.S. satellite broadcasting and communications system, including the associated ground receiving and distribution equipment. The space portion of the system will be launched by NASA and placed in geostationary orbit by a U.S. contractor, with continued operation to be carried out by China; and

2. The intended purchase, under suitable conditions, by the PRC of a U.S. ground station capable of receiving earth resources information from the NASA Landsat remote sensing satellites, including the Landsat now under development.

It was also agreed that, through further discussions and correspondence, both sides would develop the details of the understanding described above and consider other fields of civil space cooperation which could be of mutual interest and benefit.

Deng Xiaoping exits NASA's Orbiter after experiencing simulated space flight



Sightseeing at America's energy capital

High Energy Physics

IMPLEMENTING ACCORD BETWEEN THE DEPARTMENT OF ENERGY OF THE UNITED STATES OF AMERICA AND THE STATE SCIENTIFIC AND TECHNOLOGICAL COMMISSION OF THE PEOPLE'S REPUBLIC OF CHINA ON COOPERATION IN THE FIELD OF HIGH ENERGY PHYSICS

The Department of Energy of the United States of America and the State Scientific and Technological Commission of the People's Republic of China (hereinafter referred to as the Parties), for the purpose of promoting cooperation and collaboration in the field of high energy physics subject to the Agreement Between the Government of the United States of America and the Government of the People's Republic of China on Cooperation in Science and Technology, signed in Washington, D.C. on January 31, 1979, have agreed as follows:

Article 1

The objective of this Accord is to further the energy programs of the Parties by establishing a framework for cooperation in the field of high energy physics, including theoretical and experimental research, accelerator design and construction techniques; and related technology areas as may be mutually agreed.

Article 2

Cooperation under this Accord may include the following forms:

1. Exchange and provision of information on scientific and technical developments, activities, and practices;
2. Research and development activities in the form of experiments, tests, and other technical collaborative activities;
3. Exchange of scientists, engineers, and other specialists; including visits by specialist teams or individuals to the facilities of the other Party, and exchange of personnel for training purposes;
4. Exchange and provision of samples, materials, instruments, and components for testing and evaluation;
5. Such other forms of cooperation as are mutually agreed.

Article 3

Specific undertakings, obligations and conditions with respect to the conduct of each activity under Article 2 including responsibility for payment of costs shall be agreed by authorized entities on a case-by-case basis.

Article 4

1. For the purpose of coordinating activities pursuant to this Accord, a Committee on High Energy Physics is hereby established, consisting of representatives of the Parties and such other persons from each Party's national research community as it may designate. Each Party shall designate one person to act as its co-chairperson on the Committee.
2. The Committee will encourage contacts between scientists, universities, and laboratories of the two nations.
3. The Commitee each year shall develop and maintain a listing of joint activities to be carried out, and, as requested by the participating institutions and scientists, shall assist with arrangements for the listed activities. Items may be listed by consensus at meetings of the Committee, or, between meetings, by agreement of the co-chairpersons.
4. Each Party shall designate its members of the Committee within two months of the effective date of this Accord. The first meeting of the Commitee should be held, if possible, within three months thereafter at an agreed site. Subsequently, the Committee shall meet in the United States and the People's Republic of China alternately at intervals of about 12 months or as agreed by the co-chairpersons.
5. The Committee shall be subject to the direction of the US-PRC Joint Commission on Scientific and Technological Cooperation established under the aforesaid Agreement of January 31, 1979, and shall periodically report the Status of its program to that Commission.
6. The Committee may assume other duties as mutually agreed by the Parties.

Article 5

The application or use of any information exchanged or transferred between the Parties under this Accord shall be the responsibility of the Party receiving it, and the transmitting Party does not warrant the suitability of such information for any particular use or application.

Article 6

The Parties recognize the need to agree upon provisions concerning protection of copyrights and treatment of inventions or discoveries made or conceived in the course of or under this Accord in order to facilitate specific activities hereunder. Accordingly, the Parties shall appoint experts in these two fields who shall separately recommend to the Parties detailed provisions which, if the Parties agree, shall be made an Annex to this Accord.

Article 7

Both Parties agree that in the event equipment is to be exchanged, or supplied by one Party to the other for use in cooperative activities, they shall enter into specific understandings on a case-by-case basis.

Article 8

1. Whenever an attachment of staff is contemplated under this Accord each Party shall ensure that staff with necessary skills and competence are selected for attachment to the other Party.

2. Each attachment of staff shall be the subject of an exchange of letters between the participating institutions, covering funding and other matters of interest not otherwise specified in this Accord.

3. Each Party shall provide all necessary assistance to the attached staff (and their families) of the other Party as regards administrative formalities, travel arrangements and accommodations.

4. The staff of each Party shall conform to the general rules of work and safety regulations in force at the host establishment, or as agreed in separate attachment of staff agreements.

Article 9

1. All questions related to this Accord or activities carried out hereunder shall be settled by mutual agreement of the Parties.

2. Each Party will accept liability to the extent authorized by its national laws for damages arising from cooperative activities under this Accord.

Article 10

1. This Accord shall enter into force upon signature, and, unless terminated earlier in accordance with paragraph 2 of this Article, shall remain in force for a five-year period. It may be amended or extended by mutual agreement of the Parties.

2. This Accord may be terminated at any time at the discretion of either Party, upon 6 months advance notification in writing by the Party seeking to terminate the Accord.

3. The termination of this Accord shall not affect the validity or duration of specific activities being undertaken hereunder.

DONE at Washington this Thirty-first day of January 1979 in duplicate in the English and Chinese languages, both equally authentic.

Vice Premier Fang Yi views Jet Trader II model at Douglas Aircraft Company in Long Beach

Commerce Secretary Juanita Kreps with *CBR's* Nick Ludlow and Stephanie Green

An Interview With Juanita Kreps, Secretary of Commerce

When Secretary of Commerce Juanita Kreps goes to China in April, her goal will be, in her words, "to obtain Chinese agreement on the conditions under which private and governmentally sponsored commercial operations will be conducted."

Secretary Kreps, who had the opportunity to meet China's Vice Premier Deng Xiaoping during his flight to Atlanta—and to toast him at dinner there, answered CBR's *questions on her mission's objectives and Sino-US trade prospects in a special interview.*

Particularly interesting was Secretary Kreps's description of Deng's attitude toward trade with the US: "What is the most trading we (the Chinese) can do with you?"

The interview, on February 6, was conducted by Nicholas Ludlow, editor of the China Business Review, *and Stephanie Green, deputy editor.*

What changes in the composition of US exports to China and US imports from the PRC do you predict for 1980 and 1985? What do you expect the total of exports and imports to be in Sino-US trade in 1985?

We expect the composition of US exports to remain substantially the same. Agricultural exports, especially grain, will continue to constitute the largest single item, but the proportion of non-agricultural goods should increase measurably beyond the current level of 35 percent as additional quantities of equipment are procured under contracts to supply the Chinese with complete plants.

Our imports from the PRC will continue to consist primarily of China's traditional exports although the share of nonferrous metals is likely to grow. Textiles will remain significant, but growth will be limited by the need for an orderly market. Should MFN tariff treatment be accorded the PRC, we could expect some new Chinese products to appear in the trade.

Regarding exports and imports in 1985, it is very difficult to predict our trade with a centrally-planned economy seven years ahead. Our best estimate at this time is that US exports would be about $2.5 billion in 1985 and imports perhaps $1 billion. Over the period 1978-1985, US exports could total $15 billion and our imports from the PRC, $3-4 billion.

What are the major issues that you expect to discuss with your Chinese counterparts? What do you hope to achieve in Peking?

There is a wide range of issues which must be addressed before a normal commercial relationship can be established between the United States and China. In addition to claims and assets, these include the negotiation of a trade agreement; resolution of questions concerning establishment of government commercial offices, business facilities for companies, and mounting of commercial exhibits and trade missions; and agreement on such matters as civil aviation, shipping, and patents and copyrights. As you know, Secretary Blumenthal will precede me to China and initiate discussions on many of these issues. I will continue discussions, particularly on matters of trade and business facilitation.

What will be the composition of your team? What representatives from within Commerce and outside of Commerce will be included?

The composition of my team will, of course, be determined by the issues to be discussed. Thus it is a bit premature at present to decide who will be going. I expect that my delegation will include representatives of the various Commerce Department agencies, such as Trade and Industry, National Oceanographic and Atmospheric Administration (NOAA), Science and Technology (S&T), or Patents, which are developing programs with China, as well as representatives of other Departments such as State and Treasury which are involved in the substantive negotiations. We have given some thought to including representatives of the business community in my delegation. It seems iikely, however, that the focus will be almost entirely on government-to-government negotiations. In that case, we would expect the delegation to be composed entirely of US government officials.

Secretary Kreps and William Clarke look over the newly revised Commerce Department publication, *Doing Business With China*

What programs will the Commerce Department have to help expand trade with the PRC?

With the establishment of diplomatic relations, we can look forward to launching several new programs for promoting Sino-US trade. We have already made plans for initiating a trade promotion program of exhibits and technical sales seminars which will take US companies to Chinese buyers. This is one of the first commercial questions we will be discussing with the Chinese.

We also have plans for establishing government commercial offices in China, initially in Peking, and in other commercial centers at a later date. I would hope to discuss and resolve this question during my visit to China. In addition, of course, our ongoing programs for assisting US companies are being intensified.

We have increased our personnel resources for providing assistance and counseling to US business persons. They are available for individual consultations by phone or in person and also to address trade seminars. Our publications also have been expanded and revised. We intend to continue to provide and, if need be, expand these resources to match the needs of US companies.

What will be the functions of the US trade offices in China?

The US commercial offices will serve as the first line of assistance and office away from home for US companies. Its staff will provide commercial counseling and advisory service on market conditions and business opportunities in China; will help locate and establish proper contacts with Chinese trade, industry, and Government organizations; help arrange technical seminars; and assist in locating secretarial or interpreter services.

Its facilities will include space for small products displays, audiovisual equipment, telex and copying equipment, and a commercial reference library on US trade and industry. We intend this to be a one-stop service center for promoting US-Chinese trade.

Will these offices be established on a reciprocal basis?

Our arrangements with other countries concerning such facilities have usually included reciprocity and we would expect this to be true in the Chinese case. While we do not yet know Chinese intentions in this regard, we will welcome their establishment of offices in the United States as a contribution to the expansion of commercial contacts.

What changes do you anticipate in US export controls that will affect exports to the PRC?

I do not anticipate any changes in export controls affecting only the PRC. Because our controls and those of our Cocom partners are currently under review, I do expect some change in the level of controls for Eastern Europe, the USSR, and the PRC. Since this review is still in progress, I am unable to say just how significant these changes might be.

Without US Exim Bank financing and guarantees, US companies involved in very large sales to China must obtain much of their financing overseas, thus exporting jobs in order to do business with China. What actions will the administration take to make Exim Bank financing available to US companies selling to the PRC?

The extension of Exim Bank credits to the PRC requires the resolution of a number of legal questions which we are currently addressing. These include the provisions of the Jackson-Vanik amendment, which links extension of official credits to the emigration practices of non-market economy countries, including China. In addition, Exim Bank cannot extend credits to communist countries without a Presidential determination that it is in the national interest. A resolution of these questions must be reached in the process of normalizing our commercial relations with China.

The Trade Act of 1974 specifies that in a trade agreement with a non-market nation, patent and trademark protection must be granted providing not less than the rights specified in the Paris convention, and copyright protection not less than that afforded by the Universal Copyright Convention. Does the administration anticipate that China will conform to this requirement?

This is a matter which must be discussed with the Chinese, of course. We expect to raise it soon. China has a system of trademark protection under which US firms have registered. We believe, from the contacts our patents experts have had with the Chinese, that this question will be resolved satisfactorily.

Under the Trade Act, a trade agreement must also provide arrangements for the settlement of commercial differences and disputes. What kind of arrangements are likely to be made with the Chinese?

There are internationally accepted methods for disputes settlement, and we would expect that any agreement reached with the Chinese would reflect these.

Realistically speaking, how soon do you think it will be possible for a trade agreement with the PRC to take effect—and for China to receive MFN from the US?

It is somewhat premature at the present time to set timetables for extension of MFN. As you know, MFN can be granted only through a trade agreement which must first be negotiated and then approved by Congress. This process will be initiated by Secretary Blumenthal during his visit to China. We would certainly hope that an MFN relationship can be established at an early date.

What effect do you think granting of MFN tariff status will have on exports of Chinese goods to this country?

It has been our experience that it takes some time after MFN is granted for the imports from a particular country to increase and that this growth is usually gradual. The granting of MFN to the PRC could result over the course of a year or two in a 20-25 percent increase in imports from China.

TOAST BY SECRETARY OF COMMERCE JUANITA M. KREPS, ATLANTA, GEORGIA

Thursday, February 1, 1979

Mr. Vice Premier, Madame Zhuo, Governor and Mrs. Busbee, Chinese and American friends.

Our two countries have embarked on a new adventure—an adventure as uncertain in its outcome as it is exciting in its prospect.

We reach out—one to another—seeking in the mysteries which we embody—one for the other—the goals of humankind.

We are two great Nations. We are two great forces. We meet again as we have in the past—yours a great and ancient civilization, ours derived from many great and ancient civilizations.

We are Nations with many interests; Nations with many and complex responsibilities in a changing and turbulent world.

We seek each other for progress. We seek each other in peace. We seek each other for what it can mean for mankind.

Progress is our faith. Not a progress based on exclusion. But a progress nurtured by constructive relationships with all Nations of the world.

The adventure on which we have embarked will bring our Nations nearer to one another—not as Nations seeking certainty in an uncertain world—but as people who see in understanding a way to make our paths straight and smooth and safe.

Finally, these lines by an American poet with a deep love for China:

I am old enough now to make new friends.
It was you [in this case, Mr. Vice-Premier, you and President Carter] that broke new wood.
Now is a time for carving.
We have one sap and one root.
Let there be commerce between us.
The journey will be long. It is good we have begun.

The Chinese have intimated that if there are restrictions on their exports to the US, such as in the textiles category, this may have an effect on their purchases from the US. Could you comment on this?

It needs to be remembered that the United States has one of the most liberal import policies in the world. Our trade deficit with the world and with individual countries testifies to this. There are ample opportunities for other countries to expand their exports to us, even in the textile field, which is a particularly sensitive industry for us. Our policy is not to prevent the growth of textile imports, but to assure that this growth will be orderly and nondisruptive to our market.

If you were to look forward to 1980 and 1985, what changes do you anticipate will have taken place in our economic relationship with the PRC?

By next year, 1980, I would expect that we would be well along the road toward normal commercial relations. For instance, I would expect a trade agreement and MFN to be in place. Beyond that, interaction between American and Chinese companies should be growing, with US companies concluding major contacts with China, establishing their offices in Peking, and participating in joint ventures for the development of China's resources. Commercial cooperation between our countries is expected to grow further in subsequent years; by 1985 we should be important trading partners on a wide range of goods and services.

What is China's attitude towards trade with the US?

I think there is no doubt about the seriousness of the Chinese toward trade with the US. There is no doubt that they want a trade agreement, and want to buy and sell.

Deng's attitude toward trade is optimistic: What is the most trading we (the Chinese) can do with you? He raised the question of whether US-China trade by 1985 could match that of China with Japan.

How do you envisage the future role of the National Council?

I think the Council role is vital. It will continue to play a significant role in US-China trade.

What is your impression of Deng Xiaoping?

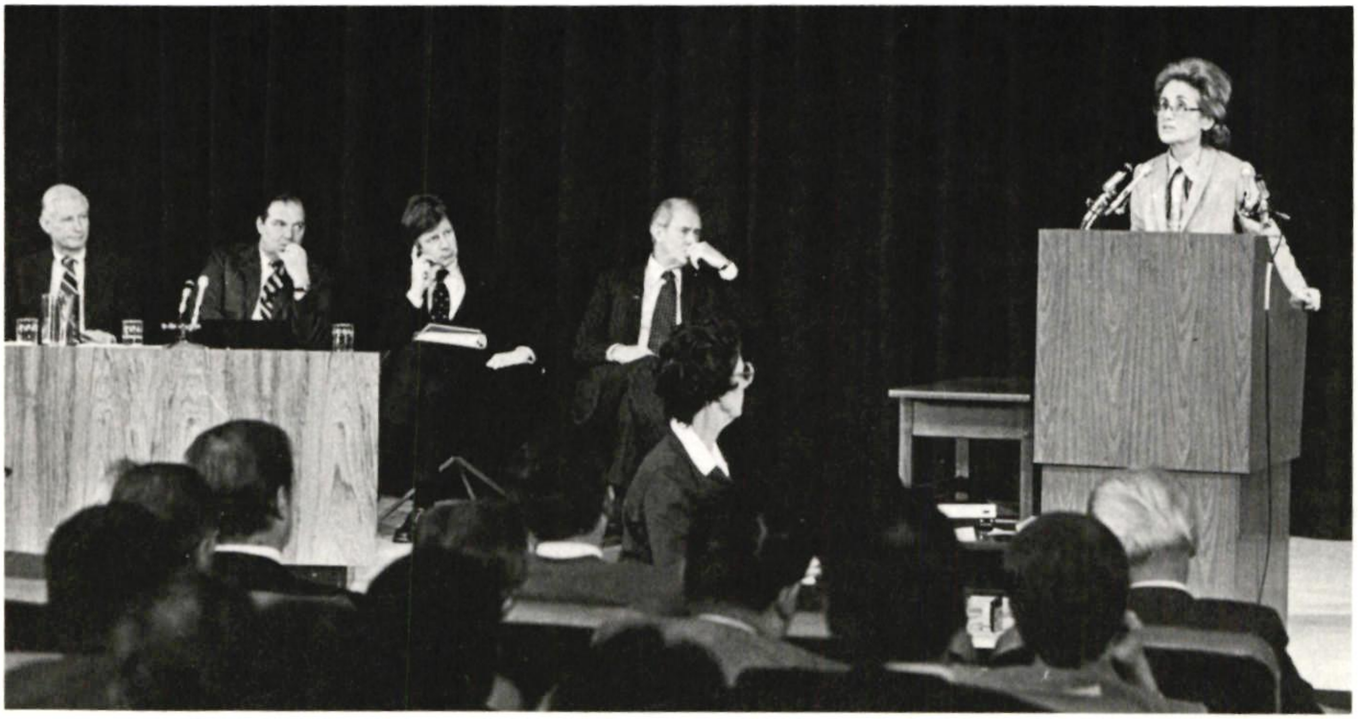
We had the opportunity to talk on the plane going south. Deng is clearly dedicated to trade between China and the US, and on a large scale. He was obviously delighted with the technology we were able to display.

We have a vision of the China he wants to achieve, commercially as well as economically. One cannot fail to be impressed as to how quickly he came to understand the whole American idiom and the stance of those of us in commerce and business enterprises.

One gets the impression of an open, friendly person. He is a marvelous media artist. He seemed to enjoy big automobile plants, big luncheons, toasts, and countertoasts.

I gave a final toast for him in Atlanta in a broader, philosophical vein. Deng seemed to be pleased. 完

Secretary Kreps addressing business gathering on normalization, Washington, January 15



A GUIDE TO PINYIN PRONUNCIATION AND SPELLING

When you send your next letter to China, should you address it to Peking or Beijing? Should you refer to Teng Hsiao-p'ing or Deng Xiaoping? Tientsin or Tianjin? And how should you pronounce an "x" at the beginning of a word: as in xylophone?

These are very real questions for the American business community since Xinhua (Hsinhua, or New China News Agency) announced it would adopt China's own phonetic alphabet, known as pinyin, as of January 1, 1979, for personal and place names. Dispatches are now coming from Beijing, speaking of Hua Guofeng. Falling quickly into line with the new Chinese word export policy, US government agencies have already switched over to the pinyin system. President Carter sent out invitations in honor of Deng Xiaoping during the vice premier's visit at the beginning of the month.

Realizing the confusion that would result for foreigners who had grown used to the familiar Wade-Giles system or other standard usage, no matter how misleading those spellings have proved, Xinhua has published several helpful pronunciation guides.

Revised versions of these follow below.

For the businessman who, after reading these charts, is still unsure whether to take the jump into this strange new spelling world, it should be pointed out that, despite a smattering of odd x's and zh's, pinyin is actually very close to the way a word sounds in Chinese. For example, in Chinese, the capital, Peking, is pronounced "Bay-jing"—almost the same as the pinyin spelling, Beijing.

The following lists compare the new pinyin system with the other now-purged systems.

PRONUNCIATION GUIDE

Pinyin	Wade-Giles	Comments
A	A	As in far
B	P	As in be
C	TS'	Like "ts" in bits
CH	CH	As in church, strongly aspirated
D	T	As in do
E	E	As "er" in her, with the "r" silent; also, "e" in yes, and "ei", as in way
F	F	As in foot
G	K	As in go
H	H	As in her, strongly aspirated
I	I	Two pronunciations: As in eat; As in sir in syllables beginning with c, ch, r, s, sh, z, and zh
J	CH	As in jeep
K	K'	As in kind, strongly aspirated
L	L	As in land
M	M	As in me
N	N	As in no
O	O	As "aw" in law
P	P'	As in par, strongly aspirated
Q	CH	As "ch" in cheek
R	J	Pronounced as "r" but not rolled, or like "z" in azure. (Note: This sound, which ends up as a cross between an "r" and a soft "j", does not exist in English and is almost never pronounced correctly by Americans.)
S	S, SS, SZ	As in sister
SH	SH	As in shore
T	T'	As in top, strongly aspirated
U	U	As in too; also as in the French "u" in tu, or the German umlauted "u" in Muenchen
V	V	Used only to pronounce foreign and national minority words and local dialects
W	W	Used as a semivowel in syllables beginning with "u" when not preceded by consonants, pronounced as in want
X	HS	As "sh" in she
Y	Not used	Used as a semivowel in syllables beginning with "i" or "u" when not preceded by consonants, pronounced as in yet
Z	TS, TZ	As in zero
ZH	CH	As in jump

SPELLING GUIDE FOR PLACE NAMES

Municipalities Under Central Government

Pinyin	Standard Usage
Beijing	Peking
Shanghai	Shanghai
Tianjin	Tientsin

Provinces and Autonomous Regions

Pinyin	Standard Usage
Anhui	Anhwei
Fujian	Fukien
Gansu	Kansu
Guangdong	Kwangtung
Guangxi Zhuang	Kwangsi Chuang (Autonomous Region)

Guizhou	Kweichow
Hebei	Hopei
Heilongjiang	Heilungkiang
Henan	Honan
Hubei	Hupeh
Hunan	Hunan
Jiangsu	Kiangsu
Jiangxi	Kiangsi
Jilin	Kirin
Liaoning	Liaoning
Nei Mongol	Inner Mongolia (Automonous Region)
Ningxia Hui	Ningsia Hui (Automonous Region)
Qinghai	Tsinghai
Shaanxi	Shensi
Shandong	Shantung
Shanxi	Shansi
Sichuan	Szechuan
Xinjiang Uygur	Sinkiang Uighur (Automonous Region)
Xizang	Tibet (Autonomous Region)
Yunnan	Yunnan
Zhejiang	Chekiang

Well-Known Cities and Places

Anshan	Anshan
Baotou	Paotou
Bengbu	Pengpu
Changchun	Changchun
Chengdu	Chengtu
Daqing	Taching
Dazhai	Tachai
Fuzhou	Foochow
Guangzhou	Kwangchow
Guilin	Kweilin
Hangzhou	Hangchow
Harbin	Harbin
Jiujiang	Chiuchiang
Kunming	Kunming
Lanzhou	Lanchow
Lhasa	Lhasa
Luoyang	Loyang
Nanjing	Nanking
Nanning	Nanning
Qingdao	Tsingtao
Shantou	Swatow
Shenyang	Shenyang
Suzhou	Suchow
Tangshan	Tangshan
Urumqi	Urumchi
Wuhan	Wuhan
Xiamen	Amoy
Xian	Sian
Yanan	Sining
Yantai	Yenan
Yinchuan	Yentai
Zhengzhou	Yinchuan

SPELLING GUIDE FOR PERSONAL NAMES

Chairman of Central Committee of Communist Party

Pinyin	Wade-Giles
Hua Guofeng	Hua Kuo-feng

Vice-Chairmen of Party's Central Committee

Ye Jianying	Yeh Chien-ying
Deng Xiaoping	Teng Hsiao-p'ing
Li Xiannian	Li Hsien-nien
Chen Yun	Ch'en Yun
Wang Dongxing	Wang Tung-hsing

Members of Political Bureau of Central Committee

(all listed in order of strokes in surnames except Hua)

Pinyin	Wade-Giles
Hua Guofeng	Hua Kuo-feng
Wang Zhen	Wang Chen
Wei Guoqing	Wei Kuoch'ing
Ulanfu	Ulanfu
Fang Yi	Fang I
Deng Xiaoping	Teng Hsiao-p'ing
Deng Yingchao	Teng Ying-ch'ao
Ye Jianying	Yeh Chien-ying
Liu Bocheng	Liu Po-ch'eng
Xu Shiyou	Hsu Shih-yu
Ji Dengkui	Chi Teng-k'uei
Su Zhenhua	Su Chen-hua
Li Xiannian	Li Hsien-nien
Li Desheng	Li Te-sheng
Wu De	Wu Te
Yu Qiuli	Yu Ch'iu-li
Wang Dongxing	Wang Tung-hsing
Zhang Tingfa	Chang T'ing-fa
Chen Yun	Ch'en Yun
Chen Yonggui	Ch'en Yung-kuei
Chen Xilian	Ch'en Hsi-lien
Hu Yaobang	Hu Yao-pang
Geng Biao	Keng Piao
Nie Rongzhen	Nieh Jung-chen
Ni Zhifu	Ni Chih fu
Xu Xiangqian	Hsu Hsiang-ch'ien
Peng Chong	P'eng Ch'ung

Alternate Members of Political Bureau of Central Committee

(stroke order)

Chen Muhua	Ch'en Muhua
Zhao Ziyang	Chao Tzu-yang
Seypidin	Saifudin

Note: The PRC of late has employed a modified Wade-Giles system, eliminating the apostrophes but retaining the vowel and consonant usage. For Americans who learned a strict Wade-Giles system, this has proven very confusing. 完

FINANCING PLANT AND EQUIPMENT EXPORTS TO CHINA

Tips for US Companies Wanting a Competitive Edge Over Foreign Rivals

Deirdra D. Deamer

As US companies become more involved in selling large technology projects costing billions of dollars to the People's Republic of China the question of financing these sales becomes more critical. Without US Exim Bank facilities American companies are losing to the Japanese and European competitors, or are selling their technology to the PRC via Japan and Europe because that is the only competitive alternative. Even with US Exim available there are constraints, including low funding available, Jackson-Vanik conditions, and lack of fixed rate subsidies.

The situation also affects foreign suppliers waiting to present finance packages to Beijing—as of early February a multi-billion dollar European proposal was jeopardized by the inability of its American component to provide competitive financing terms. What kind of terms are acceptable to the PRC? How can American companies match those terms? In this detailed article the Bank of America's Deidra Deamer spells out the options and proposes potential comprehensive financing packages that can be assembled to gain US firms the competitive edge in the escalating China market.

Deidra D. Deamer, Assistant Vice President at the Bank of America, has been with the bank for seven years in the World Banking Division. She currently works in San Francisco specializing in assisting companies doing business with China. Previously, Ms. Deamer worked in the bank's Global Strategy and Planning Department.

Not long ago we still had two important "forbidden zones" in our dealings with other countries. We would not accept government-to-government loans. We would only accept commercial loans between banks. This has since changed. . . How much can we borrow must be within our ability to repay our debts. This is a very important point.

China's Minister of Foreign Trade, Li Qiang,
in Hong Kong, December 15, 1978

By 1985 the People's Republic of China will have more than 120 ambitious infrastructure projects on stream or nearing completion, including ten integrated steel mills, ten new oil and gas fields, nine nonferrous metal installations, eight new coal mines, six new railroad trunk lines, and five new harbors. The PRC will have invested as much as $600 billion in its economy by 1985 in a great leap to industrialization.

One portion of China's new investment will be accounted for by massive purchases of foreign technology and services. How will China pay for these purchases? Since June 1978, China's Foreign Trade Minister Li Qiang has reiterated that China will consider any form of financing, even government loans, to cover its foreign purchases. To a banker this means China now finds acceptable syndicated Eurocurrency loans, Eurobonds, direct borrowing backed by promissory notes, and discounted bills of exchange.

It is no secret that China is already experienced in foreign financing techniques. During the early 1970's, China went on a plant buying spree, welcoming five-year deferred payments from suppliers. Under those terms, suppliers obtained nonrecourse credits, usually

EXAMPLES OF FINANCIAL TERMS OF PLANT SALES TO CHINA, 1972-78
(Listed chronologically by contract date)

Company (Country)	Price,* Contract Date	Type of Plant, Yearly Output Metric Tons	Terms
Toyo Engineering (Japan)	$ 46 m (Y 14 b) 12.29.72	Petrochemical plant Ethylene 300,000 Butadiene 45,000	20% down, 80% at 6% for 5 years after completion of plant in late 1975. Yen/Yuan transaction. First major sale of Japanese plant to China using Japanese Exim Bank credits since 1963.
Pullman Kellogg (US)	$ 200 m 6.29.73 and 11.8.73	8 ammonia fertilizer plants that feed ammonia to urea plants built by Kellogg Continental of Amsterdam	Cash downpayment with progress payments. Approximately 20% down, 70% on completion, 10% on start-up.
Technip-Speichim (France)	$282 m (Fr 1.2 b) 9.26.73	Petrochemical complex	5 year terms, after delivery date, by Credit Lyonnais, Banque de L'Union Europeene, and Banque Francaise du Commerce Exterieur. COFACE guaranteed 85% on subsidized rate basis.
Demag, Schloemann and Siemag (W Germany)	$ 198 m (DM) 500 m) 3.27.74	Steel mill for Wuhan Cold rolled steel 1,000,000	10% downpayment, 10% in January, 1975, 70% over delivery period from April, 1975, to January, 1977. Remaining 10% paid in two installments upon completion, and after period of satisfactory operation. Payment in DM to Deutschebank (Duisburg).
Nippon Steel (Japan)	$ 231 m (Y 69 b) June, 1974	Steel mill for Wuhan Hot rolled steel 3,000,000 Silicon steel plate 70,000	Payment yen-denominated on 5 year deferred payment basis at 6% per annum. Japan Exim Bank suppliers credit guaranteed by the Bank of China.
Mitsubishi Petrochemical (Japan)	$ 31.5 m (Y 9 b) Announced 3.5.75	Petrochemical plant Ethylene 120,000 plus	Deferred payment in RMB over 5 years at 6%. Japan Exim Bank suppliers credit guaranteed by the Bank of China.
Rolls Royce (UK)	$ 181.9 m (L 90 m) Announced 12.15.75	Spey engine technology	Progress payment insured and guaranteed by ECGD. Bill of exchange endorsed by Bank of China.
Teijin (Japan)	$ 43 m (Y 12 b) Reported June, 1976	Polyester fiber plant 80,000	Yen-denominated with 10% initial payment, 20% on delivery and balance paid in installments over 5 years after factory is on line. Japan Exim Bank suppliers credits guaranteed by the Bank of China.
Nippon Steel Corporation (Japan)	$ 2.03 b (Y 400 b) 12.1.78	Integrated iron and steel works for Paoshan near Shanghai Steel ingots 3,000,000 at start up, and 6,000,000 by 1985	Progress payments, not deferred payment. Whether deal in yen or dollars was to be decided December 23, 1978. Most plant contracts signed by China with Japan in 1978 were on a cash basis.
Fluor Corporation (US)	$10 m 12.7.78	Copper mine 190,300 tons of ore per day when project completed in 1983	Contract is on a reimbursable cost or cost-plus basis, a first for US-China trade. Previously China preferred lump-sum payment contracts. Future contracts for this project may total $ 800 m.

* Dollar conversions at month end rates quoted in IFS (IMF). Prepared by Jim Stepanek

from foreign export incentive programs, and passed the costs on to China in the form of a higher sales price.

By 1976 China's repayment service ratio had reached 22.6% of its hard currency exports (see *CBR* 4:2, p. 20). In the five years through 1977, nearly 85% of Japanese plant sales to the PRC were financed through Japanese Exim Bank supplier credits guaranteed by the Bank of China, the PRC's foreign exchange bank. And as of end-1977 Beijing was lending $2 billion on the Eurocurrency market (See *CBR* 5:5, p. 65).

The situation has progressed to a new stage.

Short-term import financing through suppliers will constitute the bulk of the PRC's immediate needs. Medium-term supplier credits as under previous deferred payment arrangements will no doubt still be sought for a few of China's smaller-scale projects. But over the next eight years, large syndicated direct buyer credits will probably comprise the bulk of China's medium- and long-term borrowing for the multimillion and billion dollar projects contracted for by Peking.

The first direct loan offered China by a western bank is believed to have been the $5 million short-term rollover facility at 5/8ths over the London Interbank Offer Rate, provided the Bank of China by the Bank of Montreal. This was reported on January 29, 1979.

More and more companies are quietly being asked by Chinese buyers to explore credit facilities available. Companies looking for a finer competitive edge in the competitive China market are cautiously seeking their banker's advice on financing terms to quote should they win a contract. The time may have come when US companies with innovative bankers ready to arrange direct loans for China will find themselves more likely to clinch a deal.

THE PITFALLS OF PROGRESS PAYMENTS

Companies which have already signed up progress payment contracts with China are all too familiar with standard "cash" payment terms offered: 20% advance payment; 70% upon shipment of equipment; 5% on delivery and assemblage of equipment and the remaining 5% after expiration of the performance guarantee or test period. No exporter is likely to be able to carry the production of equipment against a 10% advance payment without digging into his internal cash. Exporters typically have run peak negative cash flows of 50% under such payment terms. Where the bulk of costs relate to production, even higher negative flows have been noted.

Without restructuring an existing contract, the only financing available to an exporter may be a working capital loan until the 70% payment is received. Many exporters with insufficient working capital to cover the shortfall have had to secure commercial bank financing during the manufacturing period. Since these are usually fixed price contracts and financing costs were not included, the cost of financing has come directly out of the supplier's profits.

No company finds China's progress payment terms ideal, yet accepts them perhaps for no other reason than to win a Chinese contract. Faced with the continuing likelihood of being offered such terms and anticipating the ultimate consequences, shouldn't a US exporter be prepared to counteroffer a more suitable arrangement? Implicit in the cash/progress payment contract is that a Chinese buyer would be willing to make more frequent interim payments and that the payments are not contingent upon the contractor's satisfactory completion of the contract. Assuming, therefore, that China seeks stretched-out terms only to alleviate or delay draining foreign exchange reserves, the US exporter might offer to arrange buyer credits of the types discussed below. Supplier credits, which may also be considered, are discussed later.

WHY BUYER CREDITS FOR THE PRC NOW?

China has developed a keen sensitivity to borrowing costs and is prepared to do what is necessary to get the lowest possible rates even if this means direct loans. It is turning to suppliers for assistance and asking them to use their relations with commercial bankers to help in arranging buyer credits. Suppliers in turn should no longer assume that all contracts will be strictly cash as in the past and should be prepared to respond to financing requests. This is not unique, as suppliers are often asked to present financing arrangements for the buyer's consideration, particularly in large-scale projects. But the approach is new for China.

For China, supplier-arranged buyer credits will provide ready access to an established relationship between a supplier and his bankers. While leaving the burden to the supplier of shopping around for the best deal, it will give China a direct role in negotiating final terms. For the supplier, it will relieve his burden of structuring the deal so that he might obtain nonrecourse financing, while still offering the opportunity to gain a competitive edge when an attractive financing package can be arranged. Above all, buyer credits eliminate the supplier's need to escalate the sales price to include financing costs.

Buyer credits for China are rapidly becoming available from a variety of government export credit agencies (excluding the US Exim Bank) which are now preparing their buyer credit guidelines, and from commercial banks, which are setting up in-house facilities for China credits.

In projecting its interest in buyer credits of any sort, China insists on four criteria: US dollar loans, long maturities, fixed interest rates, and interest-subsidized rates to the maximum extent possible. China's

PECULIARITIES OF CHINA'S LETTERS OF CREDIT

A Guide for US Exporters

China's normal equipment purchase contracts with US companies provide for a Letter of Credit (L/C) to be issued by the Bank of China in favor of the US exporter. As a payment mechanism, the L/C calls for sight drafts to be drawn on the Bank of China's Beijing office. This simple trade mechanism may have some pitfalls for the unsuspecting exporter and some advantages for the wary one.

In trading with China, an exporter should be aware of several peculiar aspects of China L/Cs. First, the Bank of China is not a member of the International Chamber of Commerce. While its L/Cs need not conform to the ICC's Uniform Customs and Practice for Documentary Credits, which are familiar to most exporters, they do closely parallel accepted practice (See *CBR* 1:5, pp. 36–40). However, China is neither legally nor morally bound to conform to the ICC.

Second, as standard policy the Bank of China prefers not to have its L/Cs confirmed by a foreign bank. The L/Cs are merely advised. The advising bank has two options. It may, as instructed, bear only limited responsibility and act as collecting agent for the exporter, forwarding his documents to Peking for negotiation. This process takes about 20 days, and the exporter is paid by mail or telegraphic transfer after shipping documents are negotiated in Beijing. By waiting 20 days, the exporter extends the buyer interest-free credit.

An exporter with a keen sense of cash management can seek immediate payment by selling this receivable to the advising bank for a portion of the face value of the draft, a practice which is already common among those third country banks in the US with long relationships with the BOC. However, an advising bank which assumes responsibility for negotiation of documents would only buy the obligation with recourse to the exporter.

Some advising banks are prepared to assume a more direct role by issuing a "silent confirmation". By doing so, they bear responsibility for negotiating documents in the usual manner and then discounting the drafts without recourse to the exporter if the documents conform to all terms in the L/C. Such banks in turn look to the BOC for reimbursement in good faith. When an L/C stipulates documents to conform not only to the Letter of Credit but also to a separate contract, banks are unwilling to issue a "silent confirmation". If an exporter anticipates such a term to be included in his L/C, the Bank of China might be requested to accept the exporter's certification that documents conform thereby releasing the bank from this liability.

No matter what role the advising bank may wish to assume, the exporter may avail himself of pre-export financing through eligible dollar Banker's Acceptances assigning the L/C proceeds to a bank.

insistence on dollar-denominated loans rests on two factors: the projected weakness of the US dollar and the need to match its borrowings with future export revenues, anticipated to be in dollars from its oil sales abroad.

Although US commercial banks are well-positioned to offer a variety of dollar-based lines of credit and could for the large part meet the fixed rate and maturity criteria China has set forth, interest-subsidized rates in the range of 7—7.5%, which China says will be acceptable, are beyond a commercial bank's capabilities to provide for the foreseeable future. Only export credit incentive programs meet the fourth criteria, providing below market interest rates, and China can be expected to look there primarily to meet the bulk of her massive credit needs.

CHINA'S PREFERENCE FOR GOVERNMENT EXPORT CREDITS

As an incentive to promote local exports, most industrial countries have established quasi-governmental agencies which allow either suppliers or foreign buyers to tap government-guaranteed loans to finance goods brought from local suppliers. These agencies include COFACE (France), ECGD (United Kingdom), EDC (Canada), HERMES (Germany), JAPAN Exim Bank (Japan), and NCM (Netherlands). Because most of these programs usually operate through either local or foreign banks against the supplier's government guarantee, they do not fall into the category of direct government-to-government loans, which China adamantly maintains are an unacceptable form of credit. So China has given strong indications that it will be making the maximum use of such buyer credit lines.

As noted above, the Chinese familiarity with these programs is largely on the supplier credit side. Since 1973, European and Japanese suppliers to the China market drew close to $2 billion from these programs in the form of insured short-term supplier credits.

While the terms of buyer credits lines differ slightly from country to country, they generally enable the buyer to finance up to 85% of the purchase price through commercial banks which are in turn supported by an export agency guarantee. The remaining 15%, generally required as a cash down payment, is usually also financed by the buyer through normal commercial bank lines of credit at market interest rates. Banks are generally willing to fund the 85% portion since it involves no China sovereign risk and are then willing to assume the 15% uncovered portion on a country risk basis.

Although the Chinese buyers will be either the foreign trade corporations or one of China's many specialized ministries, who the actual credit taker will be in buyer credits is not yet certain, but all are under direct control of the central government. For purposes of export programs, where the borrower is a government or one of its agencies, the guaranteed portion funded through a bank insures the lending bank against protracted default or nonpayment due to political events such as debt moratorium and exchange restrictions.

EXPORT CREDITS: THE INGREDIENTS CHINA WANTS

What makes export credits attractive to China?

Long maturities: The multibillion dollar infrastructure projects China is undertaking and will be looking to finance, will probably require repayment terms ranging from 8 to 12 years or more, as is typical for construction loans of that magnitude. But regular lines of credit from foreign commercial banks today average only about eight years. By either direct loans, guarantees to commercial banks, or underwriting commercial bank funding, the government of the exporter, through the export incentive programs, stands prepared to complement the commercial banking sector and enable the buyers to obtain credit for projects which would exceed facilities available through normal banking channels.

If existing programs were made available to China, construction financing requiring 10 to 15 year commitments could be adequately met. However, there is no definite indication that all programs are prepared to commit such tenors to Chinese credit lines and specific terms are still under consideration and negotiation.

US Dollars: Until recently, foreign export credit programs have been limited to loans denominated in local currency of the supplier. However, depreciation of the US dollar, the accumulation of dollar reserves in Europe and Japan, and the increasing need for their exporters to develop a surefire competitive edge against US companies have lead some foreign government export agencies to establish greenback lending facilities. To complement these dollar facilities, as well as other local currency loans, the European credit programs also provide foreign exchange insurance covering currency fluctuations of 2-3% or more.

Whereas these facilities may now conveniently meet China's appetite for dollar loans while protecting local suppliers against currency exposure, it is uncertain whether these programs stand ready to extend China unlimited dollar lines of credit under the same attractive interest-subsidized rates as local currency loans. Germany's Hermes and Japan's Exim are now wrestling with this dilemma as China lobbies for the best financial deals. Britain's ECGD program has had its dollar facilities in place since 1976 and is well-positioned to utilize them now that sterling loans are much more expensive.

In addition, foreign currency insurance thus far has been too expensive to exporters to be attractive and coverage is insufficient since all losses incurred due to flutuations of 2-3% are borne by the exporter. Large enough European companies with multinational operations may be able to comfortably lay off this exchange exposure through their dollar-based operations. For those that cannot, or can lay off only a portion, there will be an added cost of covering exposure. The immediate question is who bears the cost of coverage.

If the supplier does engage foreign exchange insurance and passes the coverage costs onto the Chinese buyer, China can expect somewhat higher contract prices when insisting on payment in US dollars for contracts with European companies. For US firms this would be a welcome, equalizing factor. Of course, if the foreign supplier is prepared to absorb the exchange insurance costs, he has gained a substantial competitive edge over US companies but at the same time reduced his profit margins.

Fixed Rate Loans: Although China's bankers are quite aware of the prevailing use of floating rate financing through the Eurocurrency market, the PRC's government is not yet prepared to assume the risk of variable interest rates for the major portion of its direct borrowings. For planning purposes fixed interest costs are a predominant concern of the Bank of China. The bank has little or no experience in managing floating interest rate exposure. There is no doubt the commercial banking community will have difficulty filling China's need for fixed rate borrowings. One banking source estimates no US bank would lend more than $20-25 million with fixed interest for five years or more without guarantees. So fixed rate loans from export agencies, which make financing cost quantifiable at the outset of the project, will be preferable to China.

Low or Below Market Interest Rates: A final attraction is that export credits are cheap. Designed as export incentives, most facilities are made available at rates below those offered by any commercial bank. For example COFACE, ECGD, Hermes, and Japan Exim direct buyer credits as well as government-guaranteed bank loans are provided at interest-subsidized rates substantially below even the most attractive market rates. Through a separate agreement between these agencies and commercial banks, the agency agrees to make up any interest differential between the fixed rates and prevailing market rates, plus an agreed upon margin.

The way this type of arrangement works is that if the market rate goes above the agreed upon subsidized rate, the export agency makes up the difference. If the market goes below the agreed upon rate, commercial banks refund the difference to the government export program. For example, in this way

COFACE guaranteed 85 percent of the $282 million Technip-Speichem petrochemical complex sale to China in late 1973.

According to an existing consensus agreement among these agencies, minimum lending rates for China as a less developed country would range from 7.25 for up to five years to 7.5% over five years. A $1.2 billion bank-to-bank deposit arrangement recently signed with British banks, which provides the Bank of China with 5-year fixed deposits at 7.25% while ECGD guarantees the depositing bank a return of LIBOR (the London Interbank Rate) plus ⅞%, is a variation of this arrangement.

In such programs, foreign exporters are not usually required to pass any interest differential on to the buyer since the government stands prepared to give any buyer indirect aid equivalent to the interest subsidy paid to commercial banks. Although the US Exim Bank in principle has been opposed to holding to the consensus rate through interest support agreements, it has more readily accepted such agreements while loans were in local currencies. But now that European and Japanese agencies are beginning to lend in dollars, the subsidized rate gives their exporters an unbeatable competitive edge. The issue of interest support agreements is likely to become exacerbated as US companies compete for their share of the China market.

US EXIM BANK AND THE PRC

Ironically, the facilities of US Exim Bank, the only government export-credit bank that can rightly extend US dollar credit, are not yet available for China. While other export credit agencies are waiting and ready to fill the PRC's appetite for dollar loans, US companies must sit back and wait for the Administration and Congress to remove some obstacles before they can tap Exim loans. Unfortunately, the extension of US Exim Bank programs to China is one of the last hurdles in the long and tortuous route to economic normalization of Sino-US relations.

First, the assets/claims question must be resolved to the satisfaction of Congress. Second, China must be granted most-favored nation tariff status under the terms of the Jackson-Vanik amendment (Section 402) in the 1974 Trade Act. Third, under the terms of the Johnson Debt Default Act the US Exim Bank must reach a satisfactory agreement with the Chinese government on $20 million in defaulted loans extended to the Chiang Kai-shek government before 1949. Fourth, the President must determine that Exim Bank loans to China are in the US national interest.

Exim Bank sources optimistically expect these actions all to occur by midyear 1979 in time for the first round of real buyer credit requests from US suppliers holding China contracts. But other official sources suggest that mid-1980 may be a more likely date.

US EXIM BANK FACILITIES

Direct Loans and Financial Guarantees

Direct loans to a foreign buyer of capital equipment requiring repayment terms over 5 years. Exim generally finances 30–60% of the purchase price and guarantees commercial banks loans for the remainder. Where no direct loans are extended by Exim, financial guarantees are available to commercial banks up to 100% of the purchase price. Covers 100% of all risks. A 15% cash advance payment from the buyer is required, but can be financed through commercial banks.

Discount Loans

Exim Bank makes loanable funds available to commercial banks at fixed rates, thereby enabling them to make fixed-rate export loans. Such funding is generally available for 85% of the contract price.

Medium-Term Guarantees

Direct guarantee to a US exporter on all commercial risks up to 76.5% of the contract price and political risks up to 90%. However, this coverage is available only for the financed portion (contract price less appropriate cash down payment).

US EXIM BANK's FACILITIES AND CONSTRAINTS

What could prove to be the biggest obstacle of all so far as US Exim Bank is concerned is an inherent constraint in the Bank's charter. Unlike its European and Japanese counterparts, the Bank is funded solely through debt service payments on outstanding loans and borrowings from the Federal Financing Bank at prevailing market rates. Since it must be self-sustaining, it cannot now offer interest-subsidized loans to any buyer without straining its limited capital base. The minimum rates of 7.75-8.5% it does offer today are attractive to foreign buyers compared to market equivalent rates of 11.75-12% for similar fixed maturities. But European and Japanese companies are reported to be offering China buyer credits with interest rates of 7.25%.

China is, in addition, showing interest in combined packages of direct aid and export credit which offer the possibility of lowering effective borrowing cost to less than 6%. Typical of such arrangements under discussion is a financial package reportedly offered by Japan consisting of commercial bank dollar loans at LIBOR +⅝%, yen loans from Japan Exim at 6.25% for resource development, and long-term aid programs with interest rates of 3-4%.

Like its European and Japanese counterparts, US Exim Bank could provide a variety of short, medium and long-term direct loans to China and also guarantee US financial institutions lending direct to Chinese buyers. However, no specific programs have been offered yet and Exim Bank has given no indication which of its programs it is prepared to extend to China.

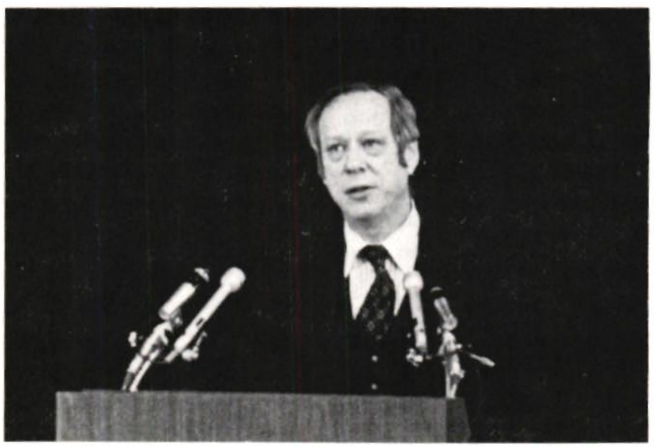
Among the Bank's three major facilities, China will be most interested in the Financial Guarantees and Direct Loan Program to cover its massive construction projects. Because Exim's capital base is limited, it has been winding down its direct lending, preferring instead to extend guarantees to backup commercial bank loans. The guarantee facilities require Exim Bank to maintain only a 25% reserve requirement and thus enable it to better leverage its existing resources. Either program would be attractive to China.

Under the Financial Guarantee program, commercial banks may fund the early maturities of construction drawdowns on a country risk basis while Exim Bank commits to guarantee bank funding of the later maturities during the repayment period. A cofinancing arrangement such as this provides a multifaceted, comprehensive package which would suit a buyer's typical construction financing requirements. Commercial bank fixed or floating rates are blended with Exim's fixed rate into a low cost financing package.

The Exim Bank's other two programs—the Discount Loan Facility and the Medium-term Guarantee Facility—both of which cover capital equipment and procurement up to $5-6 million, will also be useful to Chinese buyers but to a lesser extent since neither would cover the project-related construction financing of the magnitude and term China will be seeking.

Against such stiff competition from ECGD, Hermes, Japan's Exim and other export credit agencies, making US Exim Bank facilities available for the China market would be of only marginal use in improving US companies' competitiveness today. The bottom line of a competitive bid clearly rests on access to not merely export credits but to interest-subsidized credits. Without such credits, US companies will continue to be forced either to procure capital equipment from European or Japanese suppliers as much as possible to fulfill China contracts and tap the local export credit programs or to sell their technology to the PRC only

Treasury Secretary Blumenthal briefing business leaders on financial relations with China



through foreign licenses. In both cases the effect is to export jobs to sell to the PRC.

It should be noted that, anticipating this procurement strategy which is developing not only for China but other countries as well, multinational banks have readied themselves to assist US companies in tapping foreign credit programs for their exports from a foreign subsidiary or licensee. For US contractors limited primarily to procuring from suppliers in the United States, a competitive edge will be harder to find without US Exim Bank support. Against the commitment that European and Japanese agencies have made to their exporters, US companies cannot compete successfully in China without comparable programs.

Even when US Exim Bank loans are available, until the Bank's programs are on an equal footing with its counterparts, the US Exim Bank will not provide enough of a competitive edge for US companies to take up a good share of the China market. Hopefully, by the time its facilities are available for China's suppliers in the US, our Exim Bank will also have arranged interest support agreements with commercial banks paralleling those in Europe and Japan. These plans are now on the drawing board.

COMPREHENSIVE FINANCING PACKAGES FOR CHINA: GAINING THE COMPETITIVE EDGE

A US exporter looking to gain an edge over his European and Japanese competitors in the China market should be prepared to offer to a Chinese buyer a construction financing package, comprising the maximum amount funded from a government export program including US Exim when available, and the remaining portion from integrated commercial bank facilities.

Until now, China has not followed the usual approach to buyer credit requests. In inviting bids from US companies, Chinese buyers have not requested prearranged financing to be incorporated into initial bids. Moreover, no specific projects have been earmarked for financing. Nor has China firmly indicated in advance that it will be seeking 100% financing for a major construction project once a contract is signed. But, as Chinese buyers are leaning in the direction of securing more financing, a supplier will want to explore the buyer's financing needs on a case-by-case basis, keeping in mind that a supplier with an innovative financial arrangement, attractively priced might find his offer favorably received by the Chinese buyer.

To discuss financing structure effectively with a Chinese buyer, the US company should be fully aware of the characteristics and flexibilities of buyer credits which his bank is prepared to offer to China and the advantages to be gained by combining such facilities with US Exim Bank or a variety of other export programs, depending on the company's flexibility in procuring equipment and/or services from abroad.

MEETING BEIJING'S CRITERIA—USING ACCEPTANCE FINANCING

Judging by the major projects China has signed to date, traditional bank approaches to construction lending will need a more innovative touch, and special funding schemes will have to be brought to bear more than in normal credit transactions in order to meet China's four criteria. US banks have the financial capacity and expertise to meet these demands and can offer an inherent competitive edge to US companies—their vast domestic dollar base.

European and American banks can both tap the Eurodollar market to provide variable rate, short-term Eurodollars at LIBOR market rates and medium-term, fixed-rate Eurodollars up to five years to a limited extent. But fixed rate arrangements are usually more expensive than those which US banks might provide directly from their domestic, fixed-rate dollar pool and through their access to fixed-rate institutional money, which costs even less than fixed-rate bank funds.

As an additional source of low cost financing, American banks can also create dollar-denominated banker's acceptances for short-term trade needs.

Although acceptance financing is not often used in project financing or construction lending, this short-term facility offers a distinct advantage for China's construction financing needs if factored into a comprehensive package. For the shipment of equipment to fulfill a Chinese contract, US banks can create dollar Banker's Acceptances at interest rates usually well below the US prime rate.

Such drawings would, of course, have to be refinanced through medium- or long-term facilities as acceptances can be created for only the first 180 days of a trade cycle. However, by utilizing this financing mechanism for equipment exports, the Chinese buyer is afforded the opportunity to lower the effective borrowing cost of the entire financing arrangement.

ELEMENTS OF A US COMMERCIAL BANK FINANCING PACKAGE FOR CHINA

Instrument	Characteristics
Eligible Banker's Acceptances	Rates are usually below US Prime rate; available for up to 180 days for export of goods; created by discounting dollar drafts drawn on a US bank.
Eurodollar Facilities	A variable rate facility based on 3, 6, 9, or 12-month LIBOR plus a margin or spread. The margin is determined by assessment of the borrower's credit-worthiness. Commitment generally available up to 8 years.
Fixed Rate Domestic Dollar Facilities	Tenors up to 8 years generally; rate based on a projected domestic certificate of deposit pool of funds. Available only from US banks.
Eurobonds	Private placement in the Eurocurrency market with generally longer maturities than commercial bank lines; coupon rates fluctuate between Eurodollar rates and US Prime rate.
Institutional Lenders	Fixed rate funds provided by insurance companies, etc., with rates below commercial bank rates, maturity averages of 10–12 years. These facilities may only be available to foreign borrowers against a US commercial bank's Standby Letter of Credit in which case the applicable rates would be the bank's credit rating.

100 PERCENT FINANCING—CHINA AND THE US

Why would China want 100% financing for its imported projects? If the PRC did request total financing for imports it would mean that the 15% cash down payment requirement in export incentive programs need not come from Peking's current foreign exchange reserves. With start-up projects in 1979/80 in the aggregate possibly exceeding $10 billion, advance payments averaging 10-20% could cost $1-2 billion—more than one-third of the PRC's present estimated hard currency reserves. Nevertheless, the PRC's preoccupation with financial prudence is unlikely to result in much 100% financing.

Multimillion dollar credits for China's large-scale, turnkey projects cannot, however, be provided by one bank. So US suppliers should also be prepared to discuss the salient aspects of syndicating major buyer credits to a number of major bank participants with the standard front end and management fees. Although China is an untested borrower in the syndications market, its established credit-worthiness and repu- whetted the appetite for all major financial institutions to the point at which they are offering the PRC rock bottom rates of 3/8-5/8% above LIBOR. Moreover, the Bank of China has quietly admitted its willingness to meet the market's documentation criteria in order to facilitate syndicating larger credits.

Since there will be only one borrower—the Chinese

BUYERS CREDITS OFFERED CHINA BY FOREIGN BANKING CONSORTIA, 1978-79

Banks or Leading Bank	Exim Bank Contract Date	Purpose of Loan	Funds Available (Type of Currency) (US $ billions)	Tenor, Rate, and Percent of Financing
Seven banking groups: Barclays; Midland; National Westminister; Glyn's and the Royal Bank of Scotland; Standard and Chartered; Williams and S. G. Warburg and Lloyds International; Kleinwort Benson and the Bank of Scotland	ECGD (UK) 12.6.78	UK capital goods exports to China including mining equipment	1.2 £ or US $ denominated	5 years at 7.25 percent * fixed. 85 percent financing with 15 percent cash downpayment.** *Other terms:* China has 18 months to activate facility; export contracts must be submitted to the ECGD for approval to utilize deposit facility; contracts cannot be changed to other facilities later; minimum value of projects US $ 5 m.
NA	COFACE (France) and Banque Francaise du Commerce Exterieur, among others 12.4.78	Credits to facilitate 1979–85 trade agreement calling for US $ 13.6 b trade total. Probable exports include 2 atomic power plants worth US $ 4.5 b.	6.8 (Fr 30 b)	7 years at approximately 7.5 percent fixed. 85 percent financing, 15 percent cash. Denominated in French francs.
NA	Exim Bank (Japan) Proposal formulated 1.31.77 by MITI and Ministry of Finance	Credits to facilitate 8 year trade agreement (1978–85)	2	$1 b in ¥ from Exim Bank, $1 b in $ from commercial banks. Foreign exchange risks shared. 5-7 years at around 9 percent according to original proposal. Approximately 11 percent private bank lending rate blended with lower Exim rate in keeping with consensus agreement.
NA	Mediocredito (Italy) 1.25.79	Facility mainly for US $600 m Fiat agricultural machinery sales to China	1 Probably US $ denominated	Approximately 8 years at 7.75-8 percent fixed. Terms still under negotiation. *Other terms:* Loans must be repaid over 4 year period; insurance handled by SACE, affiliate of INA State Insurance Group.
Genossenschaftliche Zentralbank A.G. (GZB), among others	Exim Bank (Austria) Announced in 1978	NA	NA Probably multicurrency loan	NA
Dresdner Bank, among others	HERMES (W Germany) Negotiations begun January, 1979	Credits mainly for steel project in Hopeh Province involving consortium led by Scholemann-Siemag	14.5 (DM 28 b)	Type of currency under negotiation: Chana wants US $ credits, while HERMES normally extends DM credits.
Bank of Tokyo, among 20 banks altogether	Probably backed by Japan Exim Bank guarantees	Credits to facilitate Japan's capital goods exports to China during 8 year $20 b bilateral trade agreement signed February, 1978.	2 US $ denominated	Bank of China has reportedly agreed to prevailing Eurodollar interest rates, plus a margin. Japanese consortium offering 0.625 margin, China is asking for 0.375. Final negotiations between the Bank of China and Japanese banks begun 2.2.79.

TOTAL FUNDS ALREADY AVAILABLE AND UNDER NEGOTIATION: Over US $ 27 billion

* This interest rate observes the Gentlemen's Agreement among OECD member nations granting developing countries (including China) subsidized Exim Bank 2-5 year credits at 7.25 percent per annum.

** This portion may also be financed by China through normal commercial credit lines at market interest rates. Prepared by Jim Stepanek.

government, US banks face a constraint in the China credit market. Despite their interest in taking an aggressive lead in the first round of credits, Federal regulations limit each bank's total credit extended to an individual borrower equal to 10 percent of that bank's paid-in-capital, reserves, and undistributed dividends. So American banks will be looking to pace the growth of their China portfolios not only as prudent risk management but also to preserve their lending capacities to meet China's future credit needs.

FINANCING THE UNCOVERED PORTION OF A CHINA PACKAGE

When projects involving protracted construction and repayment periods are to be financed, several different schemes may be applied in order to satisfy China's desire to fix financing costs at the front end or as close to the front end as possible. The financing strategies discussed here are only to highlight new approaches more suitable to China's needs than more traditional construction financing techniques.

Project loans and large-scale construction loans to China are a new and developing area for all banks and no format has yet been established which is proved to be acceptable to Chinese credit takers. However, it is generally accepted that banks willing to take the China country exposure for their own portfolios through project-related construction loans would be relying on a guarantee from the Bank of China. The BOC has provided such guarantees and endorsements in many instances of European and Japanese plant and equipment sales packages.

For both the Chinese borrowers and the lending banks, there are advantages and disadvantages in each of the schemes described below. Only the salient points are discussed here as they bear on China's ultimate desire for fixed rate funding and the capabilities of bankers to meet these needs within normal banking channels. The result strived for is an overall arrangement suited to the borrower's needs, the terms of the project and the credit policies of the lending bank, and priced to reflect the appropriate risks.

Flexible Eurodollar Line of Credit

To meet the US supplier's costs as they are incurred, the Chinese buyer will need a flexible line of credit to draw from periodically in order to make cash payments. This is most conveniently and typically accommodated by a Eurodollar line of credit providing for incremental drawdowns during the construction period. However, where the project's repayment schedule is expected to extend beyond the normal 7-8 year tenor of a Eurodollar commitment, the buyer and the banks should be prepared to agree upon a refinancing option.

While fixed-rate financing would be more attractive to a Chinese buyer from the outset of the project, it has several disadvantages, the principal of which is that such arrangements typically provide for immediate lump sum drawdowns. This would not be the most suitable financing during construction, where successive drawdowns are needed, since a fixed rate commitment which is not drawn immediately may carry additional costs.

Fixed-Rate Refinancing Option

With a Eurodollar facility covering the early maturities and a fixed-rate financing for the later maturities, the lending bank's loan agreement may contain a renegotiation clause providing for a fixed-rate refinancing option, through a fixed-rate domestic dollar loan or Eurobonds, to be exercised at a predetermined date or at project completion. But this option would probably be restricted to the lender's ability to convert to a fixed-rate loan at that time and thus poses numerous potential problems for both the lending bank and the Chinese.

For the lenders, it comes down to each bank's ability to provide fixed-rate loans up to several years after construction begins. As such funds are very sensitive to money market movements, their availability may be limited due to prevailing conditions and may not be available at the time they are needed.

Moreover, when a syndicate of banks is involved, providing fixed-rate funds at the same time becomes infinitely more complex. Another tangential problem looming for the lenders is an implicit, moral obligation, which they may incur, to actually raise fixed-rate funds when merely indicating that this would be done on a "best efforts" basis.

For China, it is questionable whether the "best efforts" option would provide sufficient comfort and assurance that refinancing would be available. As a newcomer to the financial markets, it seems unlikely that China would consent to risking future availability of sizeable amounts of fixed rate funds.

Cofinancing and Commercial-plus-Exim

More typically, in protracted construction loans, where export credit programs are applied to cover some portion of the total financing package, they are combined with cofinancing arrangements structured under one commitment to the borrower running from beginning of construction through even an extended payment period. The front-end portion from commercial banks, at either market fixed or variable rates, is usually on a country risk basis while the later portion is funded under the export agency guarantee, and involving no country risk for the lending bank at a lower fixed rate of interest. When the two rates are blended into a comprehensive facility, the borrower is offered attractively priced, long-term financing.

The primary advantage of this cofinancing arrangement for China is the assurance it offers at the be-

FINANCING CHINA'S PROJECT IMPORTS: HOW AMERICAN COMPANIES ARE ORGANIZING

The Era of Cost Plus

As newspapers make almost weekly reports of multimillion and even billion dollar Chinese purchases of Western technology and equipment, businessmen and bankers have become increasingly interested in how the PRC and US companies are financing these massive import transactions. A survey of American companies that have recently signed major construction or engineering contracts with the PRC provides no clear answer. There do, however, appear to be several patterns that American companies are following in negotiating payment terms with the Chinese.

Bethlehem Steel, for instance, announced in early December that one of its subsidiaries had signed an agreement with TECHIMPORT to "furnish certain technical, engineering and management advisory services, as well as certain mine planning and testing services." In addition to this agreement to develop an iron ore mine, Bethlehem reported it had also signed "an understanding to provide services in connection with the procurement and construction phases" of the project, subject to further negotiations.

After completing this initial agreement, Bethlehem Steel executives returned to the United States, and during January industry sources reported that Bethlehem representatives have been discussing possible financing arrangements with the First National Bank of Chicago and other financial institutions. Some observers conclude that Bethlehem negotiators did not settle on a specific finance clause in the initial agreements and that a formal payment clause will only be agreed upon when the final contract, including both development and construction, is signed.

US Steel's billion dollar plus contract for another iron ore mining facility also seems to involve a two-stage negotiating process. On January 5, US Steel President Roderick signed an agreement with TECHIMPORT to help China develop a large iron-ore mine and processing facility designed to produce 17 million metric tons of iron-ore pellets and 3 million metric tons of concentrate per year.

But, after initialing the agreement, Roderick admitted, "We haven't really gotten into any financial package other than that we will provide various ways, including, of course, cash. We will be of assistance in designing financial alternatives." Clearly, Chinese and US Steel negotiating teams will study a variety of finance possibilities.

A significant development in China's financial policies was **Fluor's** $10 million copper mining contract, signed on December 7, 1978, for a project potentially worth $800 million. The Fluor contract is on a reimbursable cost or cost-plus basis, a first for Sino-American trade.

Cost-plus contracts, generally speaking, require the buyer to pay the seller for only those services that are employed in the project. During contract negotiations, both sides agree on the price of the seller's services, such as a per-hour engineering charge or a fee for computer usage; then when the project is completed the buyer is billed for those services at the agreed upon rate.

For many construction jobs, it is difficult for the contractor to estimate, before work has begun, how long or how expensive the project will be. Using a cost-plus price greater flexibility in the work schedule is assured. Another advantage of the cost-plus contract for China is that the buyer's engineers and technical experts join in project management. This will permit closer monitoring of project costs.

Before the Fluor contract, China is not believed to have signed any cost-plus contracts. For example, the recent Kaiser contract for iron-ore development signed in August 1978 was on a lump-sum basis. Preferring a fixed cost payment formula, Chinese trade officials were at first reluctant to consider a reimbursable cost contract. But because the flexible cost-plus plan simplified negotiations, the Chinese eventually agreed to Fluor's suggestion.

Beyond the original method of cost computation, no outside financing was specified in the initial Fluor contract, although company sources revealed that the Chinese had expressed an interest in learning about other possible financing terms. Fluor's copper mining contract covers phases I and II and only includes engineering services. Phases III and IV for the completion of the project will probably be awarded to Fluor, although a contract has not yet been signed.

Over the last year, a variety of pay-back schemes have been included in smaller Chinese contracts. So far these have tended to be in industrial sectors with little export potential. For example, officials from one steel company announced that the Chinese had ruled out the possibility of paying for an iron ore beneficiation plant with any portion of the output, since the iron ore was needed domestically. But **Armco's National Supply Division,** which has sold the Chinese 10 oil-drilling rigs in the past few years, revealed that Chinese officials have expresed interest in paying for at least some US technology and machinery with oil rather than cash.

Although the Chinese have now signed a series of major contracts with US firms, it seems clear that they have not yet settled upon a single formula for payment. Many large US contractors—US Steel, Bethlehem Steel, and Fluor—are still in the process of defining mutually acceptable financing terms. During the months of 1979, the Chinese will be deciding exactly what sort of terms will best suit their development needs. One can safely conclude only that PRC traders are willing to consider a broad range of financing possibilities. *Howell Jackson*

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ginning of construction that full funding has been committed through the entire paycheck period and that the later maturities are committed at quantifiable fixed rates. While this has proved to be quite a suitable construction financing arrangement for most buyers, for China it may hold the disadvantage of not making maximum use of export credit lines from the outset. Less export credit coverage and more direct commercial bank participation will push even the blended rates up closer to market rates.

The Chinese buyer will want to explore how much guaranteed coverage would be made available for each particular project. Finding an acceptable balance between these facilities may be the key to making this an attractive financing approach for the Chinese buyer.

85% Guaranteed, Plus 15% Parallel Financing

Holding to the strictest application of China's desire to meet all of its four criteria, a final innovative option should be given serious consideration. Assuming that export programs will commit to China the maximum guaranteed portion—85% of the purchase price—at the outset of construction and covering the entire construction/repayment period, a scheme can be devised to finance the 15% downpayment requirement to parallel the entire export credit facility if such extended terms are necessary for the entire purchase price. As mentioned above, commercial banks are unlikely to commit regular, funded bank lines beyond 8 years.

To obtain protracted financing for the 15% portion, a Chinese buyer may then have to look to alternative types of financial institutions in the category of institutional lenders. These offer commitments of 10 years or more and at fixed rates below even the prevailing base US prime lending rate, but they are restricted by Federal regulation from lending directly to foreign borrowers.

To bring together the extensive dollar pool of these institutions with suitable foreign borrowers, commercial banks may act as intermediaries. In this role, the bank can guarantee institutional loans to the Chinese buyer by issuing a Standby Letter of Credit in favor of the actual lender. The Standby Letter of Credit fee when added to the fixed rate commitment makes this facility still cheaper than commercial bank lines. From all considerations, this arrangement would be most attractive to the Chinese.

SUPPLIER CREDITS—DEFERRED PAYMENTS

In a straight turnkey project where the contractor has risk through the completion of the plant and its commissioning, the Chinese buyer would not be prepared to convert to a progress payment arrangement for the supplier by taking out direct buyer credit. In most Japanese and some European turnkey plant projects during the past five years, China agreed to deferred payment terms consisting of 10-25% of the contract price as an advance payment, 5% upon completion of the project, and the remaining 70-85% amortizing over five years. If the supplier then needed financing during construction, he looked to a commercial bank for direct supplier credit from his general purpose working capital.

Faced with this type of financing possibility, a supplier may want to reduce his liability as much as possible during construction in order to shift most of a supplier credit indirectly to the Chinese buyer. If the Chinese buyer would be prepared to extend unconditional payment guarantees in a form acceptable to a financial institution, as it has done for deferred payment to Japan in the past (see *CBR* 4:1, p. 52), nonrecourse medium-term Euro-dollar loans and short-term acceptance financing would be available to the US suppliers.

A similar supplier credit arrangement may be suited to financing China's stretched-out progress payment terms. Assuming a supplier would offer a supplier credit financing scheme only if he could do it on a nonrecourse basis, the contract must be so structured from the outset. For example, the supplier might request periodic progress certificates to be issued in his favor in the form of an unconditional payment guarantee by the Bank of China. These progress certificates would represent either monthly invoices for costs incurred to date or an aggregate of invoices at project milestones. Providing such progress certificates bear a guarantee from an appropriate Chinese organization, banks are prepared to advance funds without recourse to the exporter upon assignment of this guarantee.

Alternatively, the US exporter might wish to discount these receivables through the export credit programs discussed above. These programs do not guarantee the receivable 100% against political risk but a Chinese guarantee is in effect covering the entire purchase price, so that the portion not eligible for political risk coverage by an export program need not be carried by the US supplier. Commercial banks may be able to cover the supplier's remaining Chinese exposure by issuing a Standby Letter of Credit in his favor against a partial assignment of the Chinese guarantee. The bank then stands prepared to assume the China political risk for its own portfolio.

Since deferred payment and progress payment contracts in the past have all been on a fixed price basis and have not typically provided for separate interest payments, the supplier, upon prearrangement with the Chinese buyer, would include his financing costs in the total sales price. As China is coming to grips with the importance of better direct control and management of all financing costs to be incurred in foreign credits for industrialization, these arrangements are becoming less and less frequent. 完

AN A TO Z GUIDE TO THE ECONOMIC CONSEQUENCES OF NORMALIZATION

As a guide to the many consequences of normalization with the People's Republic of China, *CBR* presents this special A—to—Z feature on what can be expected in all major areas of our economic relations with the PRC. This guide may be read in conjunction with the various Sino-US agreements printed elsewhere in this issue.

AGRICULTURE—EXCHANGES START

Agriculture was cited in the Sino-US Science and Technology Agreement as one of the fields in which the two countries will cooperate. The understanding appended to the agreement cites agricultural technology, economic information, science education, and trade, as areas for cooperation. Noting the exchanges which have already been carried out in science and research, farm machinery, citrus fruits, wheat, and vegetables, the accord calls for further exchanges to include as topics germ plasm, biological control of pests, livestock and veterinary science, agricultural education, and research management methods.

Assistant Secretary of Agriculture Dale Hathaway will lead the first cooperator program mission to China from March 15 to 26. The program was set up under PL 480 to provide government assistance for technical exchange programs organized by private trade associations.

Organizations taking part in the Hathaway mission include the American Seed Trade Association, the American Soybean Association, the National Renderers' Association, the US Feed Grain Council, and the Western Wheat Association. Also participating are Robert Rumler of the Holstein-Friesian Association of America, who will represent all livestock cooperatives, and Julian Heron, who will represent California fruit cooperatives. No other cooperator missions have been planned for 1979 thus far.

Although a new law signed last fall makes China eligible for short-term farm credits through USDA's Commodity Credit Corporation, the Chinese have not yet indicated any interest in the program, according to one CCC official. He said they did express an interest in longer-term financing (up to 10 years), but only countries employing most-favored-nation status can receive such credits.

AID—RDP AHEAD?

The Foreign Assistance Act directs concessional assistance to any country that is "under the domination of the international Communist movement" a diplomatic euphemism for the Soviet Union. Although China is clearly not under Soviet domination, officials at the State Department and the Agency for International Development (AID) believe that the only type of US aid that the Chinese could receive would be through AID's Reimbursable Development Program (RDP).

This program enables developing countries to obtain technical assistance from US government agencies such as the Army Corps of Engineers. Ordinarily, the developing country must pay for these services, though in Fiscal Year 1979 RDP has some $3.8 million in seed money for projects that AID believes would later result in US sales. President Carter's budget request for FY 1980 calls for an increase in the seed money available to RDP to $5 million.

RDP has generally been exempt from the rather stringent provisions attached to concessional aid. For example, it can be used to provide a much wider array of services than concessional assistance, which is usually confined to such areas as food, health, and housing programs. And a new interpretation of the legislation creating RDP now enables it to fund technical assistance provided by the private sector, assuming that the developing country can pay for it unless it is financed by the seed money.

There is, however, a major hitch that must be overcome before China can become eligible for RDP aid. The State Department must first declare China to be a "friendly country." State Department sources say that no consideration has yet been given to applying this designation to China. Yugoslavia is the only Communist country thus far designated as "friendly."

AVIATION—AGREEMENT UNDER PREPARATION

In the joint statement released by President Carter and Vice Premier Deng on January 31, the two leaders agreed to conclude an aviation accord, which is required before the two nations can establish direct air links. The establishment of direct air links must await resolution of the claims/assets issue.

As of early February, the US had not engaged in any direct discussions with Chinese officials on aviation, though it had presented the Chinese with the US guidelines on international aviation and sample copies of other bilateral aviation accords. James Atwood, Deputy Assistant Secretary of State for Transportation, is chairman of an interagency committee that will formulate proposals on both aviation and shipping. The Departments of State, Commerce, Transportation, and Justice, along with the Civil Aeronautics Board (CAB) and the National Security Council, are represented on the committee.

The key issues to be discussed with the Chinese include the number of US carriers that will be permitted to fly into China, the specific routes that they and China's flag carrier, the Civil Aviation Administration of China (CAAC), would fly, and the governing mechanism that would be used to control air fares.

The US generally does not like to specify frequency or capacity in its bilateral agreements, though State Department officials believe the Chinese may insist on carrying an equal number of passengers between the two countries. Such a determination by the Chinese could, however, conflict with their new policy of promoting tourism so as to increase foreign exchange earnings.

Even with the recent acquisition of three Boeing SP 747s, the first of which will not be ready until 1980, the Chinese will be hard-pressed to match the number of passengers that US airliners can carry across the Pacific. State Department officials believe that it would therefore be in China's interest to adopt a flexible posture on frequency, capacity, and the number of carriers that would be allowed to fly between the two countries.

As of February 8, six airlines had applied to the Civil Aeronautics Board (CAB) for permission to fly into China, according to CAB. The airlines are Braniff, Pan American, TWA, United, Seaboard (a large cargo carrier), and Trans International (primarily a charter carrier).

Aviation links with the PRC would be facilitated by China's membership in the International Civil Aviation Organization (ICAO), which regulates technical issues such as navigation and aircraft certification and safety. Although the Civil Aviation Administration of China (CAAC), China's flag carrier, does not belong to the International Air Transport Association (IATA), which regulates air fares, CAAC cooperates with IATA in handling tickets of passengers who change from one airline to another.

US officials are generally optimistic that an agreement with the PRC will prove more beneficial to US interests than the 1966 agreement with the Soviet Union, which stipulated that just one airline from each side could fly into the other country. Because the Soviets made it extremely difficult for Pan Am, the designated US carrier, to sell tickets in the Soviet Union, Pan Am only carried a small percentage of the total air traffic between the two countries and lost millions of dollars every year. As a result, Pan Am terminated its scheduled service to the Soviet Union late last year.

The US will insist that the agreement permit US carriers to enjoy "fifth freedom" rights, i.e., the right to pick up passengers in, for example, Tokyo and Hong Kong, and then carry these passengers into China or back to the US. China's policy on "fifth freedom" rights is not clear, according to one US official who has studied some of the PRC's 30 bilateral aviation agreements. Despite the large number of agreements, CAAC only flies to about a half dozen countries, while about 10 foreign airlines fly into China.

BANKING—CLOSING THE GAP

Even prior to President Carter's announcement that the US and China would restore diplomatic relations, several American banks had already begun to normalize financial relations with China. At least six US banks now have "full correspondent relations" with China's foreign trade bank, the Bank of China (BOC). These include the First National Bank of Chicago, Bank of America, Chase Manhattan Bank, N.A., Manufacturers Hanover Trust Company, Morgan Guaranty Trust Company, and the United California Bank of Los Angeles. American Security Bank of Washington, DC is also working to broaden its relationship with the BOC. Citibank, New York's largest bank, recently announced that its travelers checks are now accepted by the Bank of China, but a full correspondent relationship is still under negotiation.

The US banks join the list of 828 banks in 139 foreign countries and regions that have full correpondent relations with China, according to China's official news agency, Xinhua in early February 1979. These banks can handle letters of credit, collections, payment orders, and other transactions necessary in the financing of business.

The further expansion of US-China banking relations must now await the resolution of the blocked claims and assets question. As matters stand, US banks can open accounts in Peking but the BOC cannot open deposit accounts in US banks since they would be subject to attachment by US claimants. But they can provide commercial loans to the PRC, which would not be subject to attachment.

The settlement of the claim/assets issue will permit American banks to establish branches in China. Citibank, Chase, and the Bank of America had offices in China before 1949. The only foreign banks with branches in China today are the Hong Kong and Shanghai Banking Corporation, the Standard Chartered Bank, and the Overseas-Chinese Banking Corporation of Singapore. When American banks open offices in China, the Bank of China has indicated that it will reciprocate by opening a branch in New York or Washington.

CLAIMS/ASSETS SETTLEMENT

Early resolution of the claims/assets issue is anticipated when Treasury Secretary Michael Blumenthal visits Beijing. The China claims were created when the PRC seized some $196.5 million worth of US property in retaliation for freezing by the US of about $76.5 million worth of PRC assets in the US, mostly bank accounts.

Title V of the International Claims Settlement Act grants jurisdiction to the Foreign Claims Settlement Commission for adjudication of the China claims but does not make any provision for payment of claimants once settlement is reached. In 1973 when the Hungarian claims settlement was negotiated, the Administration was forced to seek an amendment to the Act to disinvolve Congress from both adjudication and payment procedures.

Whether or not Congress is required to take a technical role in fulfilling a settlement depends on the type of settlement reached. According to legal observers, a "normal type" of settlement could be carried out under Title I procedures of the Act, in which no legislation is needed. Claims against Poland were settled in this way in 1960.

But a "normal" settlement in which assets held on both sides are used to satisfy claims will leave US claimants far short of the awards that were established by the Foreign Claims Settlement Commission. The last census of claims, conducted in 1970, set awards to US claimants at $196.5 million. Set off against $76.5 million of frozen PRC assets, US claimants are left at most with returns of 39¢ on the dollar.

Historically, Congress has raised an outcry when settlements provided less than 45 percent returns to claimants In 1974, Sen. Russell Long, then and now chairman of the Senate Finance Committee, successfully squashed a Czechoslovakian settlement which provided a return of 42¢ on the dollar. "This fellow is wanting most-favored-nation treatment trading with this nation," he told Administration officials at hearings on September 11, 1974. "It seems to me that I am in a position to get a 100-percent settlement. I would not come in here saying that this is the best I have done, which is just to say that you could not get any more somewhere else. How much you get depends on how much you have got to work with."

China also wants MFN tariff status, and a favorable settlement of the claims is thought to be essential for congressional cooperation when hearings on a trade agreement with China begin.

A recent decision by the Treasury Department to transfer all blocked assets not currently earning interest into interest-bearing accounts has added a new set of variables to the situation. First issued in proposal form on November 14, 1978, the regulations call for banks to begin paying interest on frozen assets within 30 days of publication of the regulations in the Federal Register. A reporting requirement stipulates that banks and other persons holding blocked assets describe the accounts in detail, including interest rates and compounding policy applied to the accounts.

This new regulation means that within a year's time, PRC assets under blocked accounts could be worth as much as $79.3 million, based on interest earnings on some $52 million of assets formerly under non-interest bearing accouts. Settlement on the accumulated assets would then yield returns of 42¢ on the dollar.

The numbers game can be carried even further. Between the original census of PRC assets conducted in 1951 and the 1970 census, $12.4 million worth dropped out of the picture. If total PRC assets were set at $89 million, accounting for the 14 percent lost by the 1970 census, with interest claimants might get as much as 46.6¢ on the dollar. If, as some observers have speculated, no more than 85 percent of US claims are executed, the upper limit of possible returns could rise to 53¢ on the dollar.

And this is not the final presentation in a quid-pro-quo, lump sum resolution of the claims. It has been suggested in some quarters that the regulation on interest earnings could be applied retroactively to PRC assets. Five years of simple interest earning at a 5.5% interest rate could increase returns to claimants by as much as 8¢ on the dollar, clearly passing the congressional benchmark for fair awards to US citizens.

Within two months, the agitation over the precise form of the settlement and size of awards may be relegated to an obscure chapter in the FCSC archives. Chinese leaders have insisted on numerous occasions in recent months that the claims are "a simple matter," which may be resolved with expedience. Already, the Chinese side has made it clear that new US property in China is in no danger of attachment on the basis of China's claims against the US.

COMMERCE DEPARTMENT—TRADE PROMOTION AND DEVELOPMENT

The Commerce Department has a wide range of programs and resources for promoting US business interests in China, but most offices are keeping activities in check until after the Commerce Secretary, Juanita Kreps, visits China in April.

The major exception is the PRC Affairs Desk, one of three divisions in the Office of Country Affairs. Bill Clarke, director of the PRC Desk, is a familiar figure to any businessman who has had more than a passing interest in trading with the PRC. Clarke has headed the Desk since its creation in 1973.

Among other things, the PRC Desk will be charged with developing overall trade policy towards the PRC and coordinating the activities of the several offices that may become involved in trade promotion.

Since the involvement of the Department as a whole with the PRC will be much greater than before, orchestrating the endeavor will not be easy. According to Suzanne Lotarski, Director Clarke's new Deputy Director, the PRC Desk will be working with other offices such as the Trade Promotion Division of the Office of East-West Trade Development in planning and selection of themes for trade missions and exhibitions. To meet the increased demand for information, three new staff members have joined the Desk in addition to Ms. Lotarski.

Ultimately, the Department of Commerce hopes to realize four major goals in China:

- Establishment of Commerce Department offices, the first in Beijing;
- Establishment of US company offices in China, with the Department's aid;
- A regular program of trade exhibitions;
- Organization of trade missions to China.

At present, Department officials admit that the planned trade promotion projects are far from the take-off point. For a country the size of China, the Department would like to manage 8 or 9 small trade shows, and 8 or 9 trade missions annually. But a more likely estimate for the immediate future, depending on the outcome of the Kreps' visit, is one or two such events. Until the Department's upper echelons finalize their ideas on the envisioned China effort, no appropriations will be made to fund additional staff, travel, and research expenses.

COOPERATION AGREEMENTS—COUNTERTRADE

Countertrade, commonplace in business with the Soviet Union and Eastern Europe, is now very much possible in trade with the PRC. But no countertrade code exists in the PRC at the moment, so that each agreement is on a case-by-case basis.

Since May 13, 1978, when the National Council, via its Hong Kong representative, John Kamm, was asked by Chinese trade officials to recommend US companies for countertrade arrangements, deals of various kinds have been consummated involving purchase of plant and technology in return for product.

Contracts presented to the Chinese so far have been primarily for light industrial goods, textiles, auto parts, electronic components, packaging equipment, containers, watches and other consumer goods. The Chinese have been considering establishing a new organization that will be responsible for all countertrade arrangements. In the meantime, companies have been asked to negotiate with China's exporting trade corporation such as CHINATEX or INDUSTRY as the principal, with the import corporation (TECHIMPORT) taking a subsidiary role.

Both on the Chinese and foreign sides there has been some confusion in terminology.

Nine different types of industrial cooperation arrangements exist. These include countertrade, which includes barter, counterpurchases, and compensation buyback agreements; subcontracting, production contracting; coproduction; product specialization; comarketing; project cooperation; and joint research and development.

CLAIMS HISTORY OF TOP TEN US CORPORATE CLAIMANTS

Name of Company/ FCSC Decision	Claim/Award (Millions of US $)	Corporate History of Claim	Type of Award
Ebasco Services/ CN499, CN504	$59.9/$55.6*	(1) CN 499 [1978/Enserch] 1977/Boise Cascade 1967/Ebasco Industries 1964/Electric Bond and Share Co., 52.9% 1937/American & Foreign Power Co., 80% 1929/Shanghai Power Co. (subsidiary of Far East Power Corp.)	Corporate Assets: Exclusive Franchise for power generation in the Shanghai International Settlement, dating from 8/8/29
		(2) CN 504 1938 to date/Shanghai Power Co., 62.67% 1935/Western District Power Co. of Shanghai, Federal, Inc., USA	Corporate Assets: Operations of electric power distribution system in Shanghai outside the International Settlement, French concesson and areas service by the Shanghai Power Co.
Exxon Corporation/ CN503	$27.5/$27.0	1978/Esso Eastern, Inc. 1971/Esso Standard Eastern 1962/Standard Vacuum Oil, Inc.	Corporate Assets: Petroleum supply and distribution facilities.
Caltex Petroleum Corp./ CN502	$17.8/$15.4	1947/Caltex (Asia) Ltd. 1929/Texas Co. (China) Ltd.	Corporate Assets: Facilities for supply and distribution of petroleum and petroleum products, including ocean terminals and service stations, can and drum factories, storage facilities and business offices.
ITT Far East and Pacific, Inc/CN477	$14.2/$10.9*	1978/International Standard Electric Corp. (subsidiary of ITT) na/Shanghai Telephone Co., Federal, Inc. USA na/China Electric Co., Ltd.	Corporate Assets: Telephone networks, power generating facilities, debts owed by shareholders of International Standard Electric Corporation
General Electric Co./ CN475	$4.6/$4.5	1978/General Electric Co. of CCF) na/China Car and Foundry of CCF) 1929/China General Edison Co., Inc. (affiliate Co. (CCF) na/International General Electric Co. (affiliate Co. (CCF)	Corporate Assets: Manufacturing facilities for steel products, railway equipment, motortruck bodies, electric machinery (Anderson, Meyers), light bulb manufacturing equipment (China Edison)
Citibank, NA/CN497	$1.7/$1.6	1978/Citibank 1975/First National City Bank na/International Banking Corp. (subsidiary of First National)	Corporate Assets: Offices and real estate in Beijing, Tianjin, Haryzhou, Guangzhou, Shanghai
Robert Dollar Co./ CN286, CN319	$1.7/$1.4*	(1) CN268 1903/Robert Dollar Co.	Corporate Assets: Real estate, personal property, securities, debt claims

CLAIMS HISTORY OF TOP TEN US CORPORATE CLAIMANTS (Cont.)

Name of Company/ FCSC Decision	Claim/Award (Millions of US $)	Corporate History of Claim	Type of Award
		(2) CN319 1967/Robert Dollar Co. na/Kiangsu Realty Co.	Buildings/Equipment: Buildings at 51 Canton Road, Shanghai, valued at $750,000; other real estate in Shanghai and personal property
Natomas Co./ CN484	$1.6/$1.0	na/American President Lines (APL) 1922/Shanghai Wharf and Warehouse Co. (subsidiary of APL)	Corporate Assets: Land, buildings, ocean terminal equipment, power plant, water tower, and other material associated with wharf and warehouse operations in Shanghai
Sino-American Corp./ CN483	$0.7/$0.7	na/United Trading Corp	Corporation Assets: Automobile spare parts and accessories stored in locations in Tianjin, Shenyang, Changchun, Shanghai
Henningsen Foods, Inc./ CN445	$0.9/$0.6	1922/Henningsen Produce Co. na/Hazelwood, Ltd. (50% owned by Henningsen)	Corporate Assets: "Hazelwood Dairy Farm"—property including processing plant, warehouse, offices

* Represents amount of combined claims and awards
Source: *Foreign Claims Settlement Commission Claims Programs Decisions,* Vol. 1-7 and Index.
Note: Dates associated with former owners of claims represent date of initial acquisition of the property claim.

POSSIBLE SETTLEMENT RETURNS ON US CLAIMS

	US Claims (Millions US $)	PRC Assets (Millions US $)	Return on $ ($ units)
A, B	196.5	76.5	0.39
A, B + C	196.5	79.3	0.42
A, D	196.5	89.0	0.45
E, B	167.0	76.5	0.457
A, D + C	196.5	91.8	0.466
E, B + C	167.0	79.3	0.47
E, D	167.0	89.0	0.53
E, D + C	167.0	91.8	0.548
E, D + F	167.0	94.7	0.567
E, D + G*	167.0	103.3	0.6185

A—100% Execution of US Claims
B—PRC Assets based on FCSC 1970 Census
C—Accumulation of One Year's Interest at Simple 5.5% rate
D—PRC Assets based on FCSC 1951 Census
E—85% Execution of US Claims
F—Accumulation of Two Year's Interest at Simple 5.5% rate
G—Accumulation of Five Year's Interest at Simple 5.5% rate (retroactive formula)

* Other combinations do not reach as high value returns as combinations of the more likely variables: e.g. A, D + F achieves returns of $0.4819 on the dollar; A, D + G = $0.5256 on the dollar; E, B + G = $0.543 on the dollar.

A number of good references exist on this type of arrangements, including the Commerce Department's "East-West Counter Trade Practices," the articles in the Joint Economic Committee's "East European Economies Post Helsinki," published in 1977, and Susan Swannack-Nunn's "US Business and the East-West Industrial Cooperation Prospects for the PRC," published by the National Council for US-China Trade in September 1978.

China has been contemplating compensation trade for some years. Most recently, in a speech to Hong Kong businessmen on December 15, 1978, China's foreign trade minister Li Qiang emphasized this kind of business; "We also accept compensation trade. You help us mine coal and we shall give you coal. You help us with oil drilling and we shall give you oil. You supply us with equipment and we shall supply you with what it produces. This also goes for other forms of production."

In the same speech Li Qiang referred to division of labor arrangements which reflects China's interest in the Yugoslav model of cooperation arrangements. In the section of basic provisions of the Yugoslav proposal of law on long-term cooperation in production, the text states that the cooperation arrangements are performed for various purposes, the first of which is listed as the "participation of the Yugoslav economy in the international division of labor on an equal footing."

Li said in Hong Kong "In the past we refused to go into division of labor arrangements with other countries. Now we are ready to enter into such arrangements. . . . Such arrangements are in fact practicable. In the world the production of many forms of important equipment is jointly undertaken. Countries in Europe exist side by side with each other, more or less like our provinces. A giant air bus with 300 seats was jointly developed by West Germany, France, England, Netherlands and Spain, each responsible for the manufacturing of certain parts. Now West European countries want us to produce for them the automobile parts which cost less. This we can't accept."

"They can either supply us with the necessary raw materials or semi-finished products for us to process for them. Our practices are becoming more flexible . . . but nothing can change overnight. We need time for us to introduce the changes step by step."

CONSULATES—SHANGHAI, GUANGZHOU; HOUSTON, SAN FRANCISCO

The January 31 consular relations agreement calls for the US to open consulates in Guangzhou and Shanghai, while the Chinese will open consulates in Houston and San Francisco. No dates have been set for the opening of the consulates. Late 1979 or early 1980 is likely. The US consulates in the PRC would handle the usual range of consular functions, including trade promotion, business facilitation, and following up on business-related problems.

An annex to the consular agreement stated that both governments would facilitate family reunions and travel between the two countries by persons claiming dual nationality. The two sides also agreed to discuss the opening of consular offices in other cities "as the need arises."

COPYRIGHTS—US ALREADY PROTECTED?

Until China and the US sign a formal agreement on copyright protection, or acknowledge existing, but dated treaties, any company entering the book market in China will be taking a gamble.

Under the US Trade Act, a bilateral trade agreement must include provisions for copyright protection not less than that afforded by the Universal Copyright Convention (UCC). Since China is not a member of UCC, a separate pact is called for.

UCC states that the works of nationals of countries that are parties to the convention are accorded the same rights of copyright protection as citizens in each member country of the convention.

China's copyright law does not give citizens the right to profit from their works, so far as can be ascertained. Similar to Soviet law, Chinese copyright law is largely a matter of press regulation. The author has the right to be acknowledged as such and to control the integrity of his text, but has no authority over the publication or distribution of his work.

Foreigners generally may not claim more protection than Chinese nationals, but may be able to obtain copyright royalties on a contractual basis. The imprint of a work translated from a foreign language normally indicates whether or not it is under foreign copyright: such works are usually not exported under the law.

Thus, establishment of copyright relations with China will not mean guaranteed royalties or other profits from US works distributed in the PRC.

A late December "forum of leading writers and critics" in Beijing urged the guarantee of protection by law of writers and artists. The situation may be clarified when China releases its new commercial code, which according to some observers will define the status of foreign property rights in China, possibly to include access to a higher degree of copyright protection than available in the past.

Meanwhile, US book importers have a curious problem dealing with protection of books from China. Calling the US Copyright Office about the copyright status of PRC books produces the reassuring answer that PRC imprints are under the full protection of US copyright law. Another question or two, however, is enough to deflate a caller's sense of comfort.

Protection is extended to the PRC imprints under a treaty dating from 1904. Article 11 of the Treaty beween China and the US for Extending Commercial Relations Between Them, ratified in Washington on January 13, 1904, grants reciprocal copyright protection to Chinese nationals. It is not known whether the PRC regards the 1904 treaty as having any residual validity.

DISPUTE SETTLEMENT—WILL THE FOG CLEAR?

Arbitration is one of the foggy areas in US-China commercial relations. The National Council has worked with the American Arbitration Association (AAA) in devising an ad hoc conciliation procedure for settlement of commercial disputes with Chinese trading organizations and corporations. The informality of this arrangement reflects the preference of the Chinese side for conciliation rather than formal arbitration.

Signing of a trade agreement with China is unlikely to modify the existing status quo. The US Trade Act calls for arrangements for settling commercial disputes, but not for a specific mechanism to be established. The arbitration requirement could be satisfied by references to a joint economic commission which could be charged with responsibility for developing a satisfactory mechanism. Or, as in the case of the US-Hungarian trade agreement, rather than singling out any particular set of arbitral rules, the arbitration clause could contain a general recommendation for third-country arbitration. In this event, parties to a commercial dispute could pick out any one of the many arbitration tribunals, from AAA to the International Chamber of Commerce based in Paris.

The present outlook could change greatly if, within the next months or year, China joined the UN Convention for Recognition and Enforcement of Foreign Arbitral Awards. As a UN member, China is well qualified to join. Discussions have been underway between the National Council and AAA on the US side and the Foreign Trade Arbitration Commission (FTAC) on the Chinese side on joining the convention and related matters since 1973.

Even more dramatic a change would be the development of Chinese legislation on arbitrating disputes with foreign companies. China is currently in the midst of drawing up a commercial code which, some observers speculate, could cover commercial dispute settlement procedures.

As long as the situation is in flux, the AAA and the National Council will continue to lend their advisory services to companies seeking assistance in disput settlement with China. In October 1977, the first Sino-US joint conciliation took place. Chinese and US conciliators appointed by AAA on the US side (Walter Sterling Surrey, Director and Counsel to the National Council) and the China Council for the Promotion of International Trade (the parent organization of the FTAC) on the Chinese side settled a dispute between an American corporation and a Chinese foreign trade organization.

ENERGY—THIRTY TWO PROPOSALS SUBMITTED

Events in Washington in the last week of January marked a new high in relations between the US Department of Energy (DOE) and China. With the signing of an agreement on cooperation in high energy physics on January 31, Secretary James Schlesinger finished one part of the business he began in October 1978.

The agreement on high energy cooperation is part of the larger US Government initiative to contribute to China's science and technology program. Its prime directive will be to construct a 50 billion electronvolt (50 GeV) proton synchrotron in Beijing. The Beijing Synchrotron will be the world's eighth largest when completed (the Fermi National Acceleration Laboratory in Batavia, Illinois, has the world's largest, a synchrotron that can generate up to 500 GeV).

At least 50 Chinese scientists will come to the US over he five-year period of the agreement for training and consultation on various phases of the project. In early February, Minister Fang Yi, head of the PRC Science and Technological Commission, visited two of the research institutes that will play a principle role in the program, Lawrence Berkeley Laboratory in Berkeley, California, and the Stanford Linear Accelerator Laboratory in Stanford, California. There preliminary discussions were held on how to begin the complex effort of collaboration.

Much of the design, manufacture, and construction of the basic accelerator machinery can be carried out by the laboratories involved, according to a DOE spokesman (besides Stanford and Lawrence Berkeley, the Fermi National Accelerator Laboratory, the Argonne National Laboratory at Argonne, Illinois, and the Brookhaven National Laboratory in Upton, New York, will participate). For that part of the package which is contracted out, prospective suppliers have been provided assurance on patent protection in the text of the agreement itself.

Within DOE, the Office of Energy Research will be charged with primary responsibility for carrying out the high energy program with China. Dr. James Kane, Acting Associate Director for High Energy and Nuclear Physics in OER, will chair a joint China-US Committee on High Energy Physics, which will meet annually to discuss means of implementing the program.

Less in the limelight in the initial flurry of activity following normalization was a program slowly being carved out by DOEs Office of Power Marketing Coordination. This spring the office is readying a slate of proposals that may bring as many as 100 Chinese technicians to the US for training at hydropower projects administered by the Army Corps of Engineers, the Bureau of Land Reclamation, and the Tennessee Valley Authority (TVA) as well as DOE.

According to Power Marketing Coordination Director James M. Ogden, Jr., at least 32 separate proposals had been submitted by various agencies as of mid-February. Ogden's office will be coordinating the effort.

The training programs vary in length and intensity. The basic concept is to provide on-the-job training in dam construction and management, but intensive courses at universities and research institutes may also be part of the bargain. The Chinese side will be responsible for paying all costs. A few examples of programs that will be offered:

• Construction of dams and power plants, 26–34 weeks; 1–2 engineers will be accepted (Bureau of Land Reclamation)

• Specific Multiple Purpose Project Planning, 35 weeks; 2 engineers per year will be accepted. This course will provide instruction in management of water projects associated with new dam construction (navigation, flood control, irrigation, water power, fish and wildlife benefits, supply of water to cities). (Bureau of Land Reclamation)

• Application of Generalized Computer Models and Analytical Techniques to Analyze Reservoirs for Flood Control, Water Supply, Etc., a 1–2 week course for 10 students at the Hydrologic Engineering Center at Davis, California (Army Corps of Engineers)

• Design of hydropower and hydroelectric dams, a 6-month course for 3 engineers (Army Corps of Engineers)

• Hydraulic Model Testing, 3 trainees for 3–6 months. Instruction in the principles of dynamic similarity and physical scale model construction and analytical methodology (Tennessee Valley Authority)

TVA leads the rest in the number of proposals it will offer the Chinese, with 13 proposals, followed by the Army Corps' 10, 5 from the Bureau of Land Reclamation, and 4 from the Bonneville Power Administration.

Costs are expected to be steep. The Bureau of Land Reclamation estimates that one of their 35-week courses will cost $3,250 for administrative fees, and $3,600 for tuition. Per diem costs are not taken into account in this reckoning.

THE GREATEST DAM ON EARTH

Possible SINO-US Cooperation on Changjiang (Yangtze) River Project

Location:
Near the Yichang in the Changjiang (Yangtze) gorge in Hubei Province 1,800 kilometers from the mouth.

Planned Capacity:
25,000 to 30,000 megawatts—can produce 120 billion kilowatt-hours per year.

Normal Operating Head: 134 meters.

Type: Concrete gravity.

Multiple purpose project:

Flood control, power, navigation.

Damsite Data:

- Mean average water discharge 14,300 cubic meters per sec. but very large fluctuation.
- Peak flow, 1896, 71,100 cubic meters per sec.
- Maximum peak flow on record: 110,000 cubic meters per sec. in 1876.
- Minimum flow, 2,770 cubic meters per sec. in 1937.
- Sediment transportation, 530,000,000 tons per year.
- Sediment concentration: 1 kilogram per cubic meter.
- Impermeable bedrock: Crystaline of pre-Cambrian period. Compressive strength of 1,000 kilograms per square centimeter. Modulus of elasiticity: 1 million kilograms per square centimeter.
- Damsite is located in the middle of the Huang Ling anticline. Good damsite. No deep faults.
- Seismic intensity, must design to be safe at 8 on Chinese acceleration scale. Equivalent to 0.1g for design.

Additional Power Generation Data:

- About 1,000 kilometers by transmission line to the load center of Shanghai.
- Good project. Cost: about 500 yuan per kilowatt.
- Total estimated cost of multiple purpose project: $10 billion yuan (about $6.2 billion), not including relocation of people.
- Units of 1,000 megawatts each—25 to 30 units.
- Generating station will be built with four powerhouses of three types: The first with water passages through the dam; the second using diversion tunnels for penstocks; and the third underground.
- Turbine runners will be 10 meters in diameter. China now has turbines of 11.3 meters in a low head project.
- Turbine discharge: 1,000 cubic meters per sec.
- Will design for a head of 110 meters to get 1,000 megawatts per turbine.
- The diversion section will service two powerhouses. The diversion tunnels will pass up to 86,000 cubic meters per second. There will be 5 tunnels.
- Rate turbines for 80 meters head minimum, 130 meters maximum.

Flood Control Data:

- Dam will control 1 million square kilometers drainage area.
- Dam will control 70 percent of flow of the Changjiang.
- Records indicate a major flood every 10 years or so, flooding 100,000 square kilometers of agricultural lands in the middle and lower reaches of the river. In 1931, a flood covered more than 12,800 square miles, inundating Hangzhou, a city of one million. Buildings were covered to the second floor. Thirty-two million people affected, 150,000 people killed.
- Together with channel control, there is a requirement for 38 billion cubic meters of flood control space on the main stem and tributaries to control flooding.

Navigation Data:

- Dam will back water to Chongqing, making a navigation channel.
- Will reduce velocity, now to 5 to 6 meters per second, and eliminate shoals and rapids.
- Reservoir 700 kilometers long. River now drops 150 meters in that distance. Reservoir 1,800 square kilometers normal water surface area.
- Project will regulate the flow of river to 10,000 cubic meters per sec.
- At site #3, right bank will have a series of permanent ship locks. Total lift, 134 meters. Six locks. Each lock 280 meters long, by 34 meters wide. The entire lock area is 3,000 meters long.
- Similar sized locks are being built at the regulating dam at Ko Chou Pa.
- Will build a temporary ship lifting channel during construction.
- Cargo to be moved by river. Basically natural resources: timber, phosphorus.

Diversion of Water Possibilities:

- Reservoir will be 100 meters higher than the North China plain. Will divert water north to the Yellow River to solve water shortage in the North.

Source: Department of Energy, January 1979.

Besides training programs, the Office of Power Marketing Development is reviewing proposals that could involve DOE directly in hydropower projects in China, some of them among the world's largest. A 30,000 MW dam and power plant on the Changjiang (Yangtze) River may receive US help, and at least 8 other projects of lesser magnitude on rivers including the Yellow River, the Zhujiang (Pearl) River, Brahmaputra and Mekong are being hashed over.

Other agencies as well as DOE will be involved in realizing projects in China. For both the training programs and the tentative engineering consulting projects DOE will play a coordinating role. For interested companies, the principle contract within DOE will be the Office of International Programs, directed by Daniel Ellerman. The East-West Affairs Branch of the office, which manages all the department's bilateral agreements with Communist countries, is to serve as the focal point.

DOE's involvement with China will not stop at nuclear research and development of hydropower resources. The agency's Office of Solar Energy and Conservation and Office of Energy Technology are interested in information and technology exchange projects. Representatives of the PRC State Science and Technology Commission, the New Technology Applications Research Institute, and other organizations have been invited to visit the US to confer on programs in the field of renewable energy (solar energy, wind power, biomass energy, etc.).

According to DOE spokesmen, one group may arrive as early as May 1979. But in other important energy fields, such as coal and oil, the agency is expected to take a back seat to the Department of Commerce, the US Geological Survey, and perhaps the Bureau of Mines.

ENVIRONMENTAL PROTECTION—WHAT IS IT IN CHINA?

Among the first projects funded under the United Nations Development Program (UNDP) for China are ones for prevention of oil pollution of the sea and for treatment of polluted water. China hopes to take on a modern industrial infrastructure without the noxious side-effects: Since May 1978, no new turnkey plants have been imported without pollution control packages. A new environmental protection code is being drawn up, according to PRC press reports.

Prospects are favorable for cooperation between two key US Government agencies and China in the realm of pollution control. Between March and May 1979, the deputy administrator of the Environmental Protection Agency (EPA) will take four to five officials from her agency and a similar number from its executive counterpart, the Council on Environmental Quality, to China.

A problem shared by the pollution-monitoring sister agencies with other US Government bodies is an almost complete lack of information about their Chinese counterparts. The question EPA deputy chief Barbara Blum hopes to answer by the end of her few weeks in China are almost painfully basic. What is environmental protection in China? In which areas are the Chinese advanced, and in which will they need US assistance?

The environmentalists will travel to China under the auspices of the Chinese Academy of Sciences. If a bilateral agreement is signed, it will probably take the form of an arrangement for short-term visits by technical personnel on a reciprocal basis. Sludge treatment, sludge utilization, and dredging techniques are areas in which the agency currently has projects underway around the world.

EXHIBITIONS—IN PLANNING

The China Council for the Promotion of International Trade (CCPIT) sponsors exhibitions in China. In 1973 the National Council and CCPIT reached an understanding in which the two organizations agreed to act as contact points for arrangement of the first exhibitions in each other's country.

A subject of obvious interest to member firms of the National Council, formal exhibitions of US equipment in China and vice versa will have to await resolution of the claims/assets issue. Anticipating a settlement of this problem, the Steering Group of the National Council's Exhibitions Committee has been mapping out future strategy. Meanwhile the Council is gearing up "Seminars with Equipment" exchanges with China at the Chinese suggestion.

At the Department of Commerce, Secretary Juanita Kreps told *CBR* "We have already made plans for initiating a trade promotion program of exhibits and technical sales seminars which will take US companies to Chinese buyers." DOC's Office of East-West Trade Development will coordinate these activities, but no firm plans will be made until Secretary Kreps visits China in late April.

EXIM BANK—STEVENSON, AUCOIN

In February, following Senator Stevenson's bill introduced in the Senate, Representative AuCoin introduced legislation in the House that would amend the US Exim Bank Act of 1945 and US Trade Act. The bill would facilitate the expansion of export credits for communist countries, and contains specific provisions designed to make it possible for China to use Exim Bank credits for the first time.

The provisions of the bill of interest to China traders are, first of all, an amendment that would raise the ceiling from \$50 to \$100M for US exports to Communist countries that require a Presidential determination that such a loan is in the national interest.

A new amendment to the Exim Bank Act would set a limit of \$2 billion on the aggregate amount of loans and financial guarantees that can be extended at any one time to a Communist country. Moreover, to be eligible for credits China would no longer have to provide assurances that its emigration practices conform with the free emigration objectives of section 402 of the Trade Act. Henceforth, a Presidential determination would only be required that the emigration policies of any non-market economy will "lead substantially" to the Act's free emigration goals.

Exim financing—and subsidized rates, still not available—may be linked to US companies having large sales to the PRC. According to the Administration, amending Exim legislation for China is the third major economic objective after resolution of claims/assets and a trade agreement. And when Exim is available, the funds available for China will be small.

FISHERIES—AQUACULTURE

Some kind of cooperation between the US and China is likely to take part under the umbrella of the science and technology agreement signed on January 31, but as of early February it was not clear what form that cooperation might take. The most likely area, however, appears to be aquaculture, where the Chinese have made some important advances, according to David Wallace, a fisheries specialist with the National Oceanic and Atmospheric Administration (NOAA). Wallace took part in a National Academy of Science delegation last October which inspected Chinese progress in aquaculture, oceanography, and fisheries management. The cooperation agenda would most probably focus on such areas as sharing of data, scientific exchanges, and possible provision of equipment.

GEOLOGICAL SURVEY—FOCUS WILL BE OIL

Waiting for the results of several delegations scheduled for spring 1979 before making its move is the US Geological Survey (USGS). Based on meetings in November 1978 and earlier with PRC oil research officials, the Survey already has the broad outline of an exchange program in hand. The focus of the program will be the definition of newly discovered oilfields in China's far West and Southwest. One of these is more than 200,000 sq. km. in total area, located in the Qinghai Plateau.

In the last weeks of March, the first of the delegations will visit the US from the PRC State Bureau of Geology to look at US geoscience as a whole. Later, a delegation from another special agency of the State Council, the State Seismological Bureau, may come for study of US research into earthquake measurement and phenomena. A number of US Government agencies besides USGS will play host to the latter, including the National Science Foundation, National Oceanic and Atmospheric Administration, and other members of a federal working group on seismology exchange with the PRC.

Last of the exploratory and negotiating groups will be a USGS mission to China. Accompanied by representatives from DOE, the USGS officials will go to China at the end of April to finalize the plans for joint petroleum research and development. According to USGS sources, this program will likely involve exchange of laboratory technicians and joint research projects.

GSP—FOUR PERCENT

China's joining the Generalized System of Preferences (GSP)—if it wishes to apply—will only make a four percentage point difference in its sales to the US, according to the most recent study.

GUARANTEES—OPIC, FCIA, MEANWHILE AIG

Both the Overseas Private Investment Corporation (OPIC) and the Foreign Credit Insurance Association (FCIA) are currently prohibited from guaranteeing American business deals with the PRC. FCIA, the underwriting arm of the Exim Bank, will not be able to provide guarantees until Congress permits the Exim Bank to extend credit to the PRC.

OPIC, which offers protection for certain American investments in developing countries, also requires Congressional action before it can deal with China. OPIC provides insurance against expropriation, inconvertibility of currency, and war, insurrection, or revolution. The only Communist countries currently eligible for OPIC coverage are Romania and Yugoslavia.

The company doing business with China preferring some kind of political risk coverage need not despair. The American International Group (AIG), a giant holding company with more than 200 subsidiaries and affiliates, can write up to $10 million per transaction for firms doing business with China on a sales or service basis.

AIG signed its first such contract for a company doing business with the PRC in January and expects to sign several more in the service area in the near future. Political risk coverage would, for example, protest companies against cancellation of contracts. Also preparing to offer political risk coverage for companies doing business with China is Lloyd's of London. AIG rates range from approximately 0.3 percent of a policy's amount for a deal in a "safe" country such as Japan to as much as 5 or 6 percent for a country such as Sierra Leone.

HEALTH—BILATERAL AGREEMENT PLANNED

Deputy Assistant Secretary of Health John Bryant will travel to China in March 1979 to clarify the status of US-China exchange in medical research and public health, one of the major areas for cooperation established under the umbrella science and technology agreement.

Within the next three to six months, US health officials hope to sign a bilateral agreement. Signatory agencies will probably be the Department of Health, Education, and Welfare (HEW) on the US side and the Chinese Academy of Medical Sciences. By mid-February, a working group within HEW had drawn up a list of major topics of interest to the US side: cooperation in cancer research; recombinant molecular research; communicable and infectious diseases; and population control. Still no word had been heard from the Chinese side as of February on specific areas of concern to the PRC.

HUD—BUSY PREPARING FOR CHINA

As of mid-February, the Department of Housing and Urban Development (HUD) had no China program, but was busy preparing one.

Scheduled for the last week of February, agency officials will hold a series of discussions with US experts in China's construction industry and urban planning. Through these meetings HUDs Office of International Affairs hopes to arrive at a rough agenda for cooperation. The agency currently has little or no information about China's needs in the areas under HUD supervision—housing, construction, and urban affairs.

A spokesman of the Office of International Affairs speculates that they will be able to pin down "concrete" areas for cooperation after the late February meetings. Cooperation would probably be conducted under the framework of a bilateral agreement similar to HUD pacts with the USSR, Canada, and Mexico.

IMF, WORLD BANK—CHINA DEBATING MEMBERSHIP

China is apparently debating whether to join the IMF. The manager of the Bank of China, Feng Tien-shun, recently recommended to the Foreign Ministry that China join the IMF, according to Senator John Glenn (D-Ohio) who spoke with Mr. Feng while in Peking in January. Twice before, during the IMF's Annual Meeting in Nairobi in 1973 and at the 1976 Annual Meeting in Manila, communications from China to the IMF fueled speculation that China wanted to join the Fund. On these occasions China demanded that Taiwan be expelled from the IMF, but no action was taken when it became clear that China did not desire to occupy the seat if vacated by Taiwan.

The main legal barrier to China's admission to the IMF is not likely to be admission to membership, since China—represented by Taiwan—is already a member. At present the IMF and World Bank are the only Specialized Agencies of the UN that still recognize Taiwan as the government of China. In October, 1971, a UN General Assembly resolution expelled Taiwan from the UN and from "all the organizations related to it." The decision automatically applied to UNCTAD, UNICEF and UNDP. The resolution is not binding upon the IMF, however, because the Fund is legally entitled to reach its own conclusion on questions of membership.

As a practical matter, the legal issues involved in obtaining a seat in the IMF are secondary compared with the issue of whether China wants that seat and is willing to accept the obligations of membership. Hence, the main questions to be answered concern China's willingness to follow IMF policies, and provide the economic data that would permit the IMF to adequately monitor its compliance with international practices observed by Fund members.

The size of China's quota presents another thorny problem. Its quota of $550 million has not been increased since China joined the IMF in 1945 as a charter member. The original quota was calculated at Bretton Woods in 1944, and will have to be renegotiated. Then China was the Fund's fifth largest member. Meanwhile, all capital quotas have been raised substantially. Should China join the IMF, its present quota would probably exceed $1 billion, of which at least 75 percent would be paid up in RMB. This would permit China to borrow at least $250 million of hard currency on demand, a sum equivalent to 25 percent of quota—the so-called first credit tranche. Currently, the IMF holds 100 percent of China's quota in new Taiwan dollars. Membership in the IMF would also mean access to World Bank loans, since membership in the IMF is a necessary condition for belonging to the World Bank.

JOHNSON ACT AND LOANS TO CHINA

The Johnson Debt Default Act of 1934 prohibits American banks, corporations, partnerships and private individuals and associations from lending to countries in default on debts to the United States government. China remains obligated for the repayment of some $20 million in US Exim Bank loans made prior to 1949. These loans were made to the Nationalist government of Chiang Kai-shek, but in its reports to Congress the Exim Bank has argued that the People's Republic of China is obligated for repayment since the assets purchased with the proceeds of the original loans are situated on the mainland. Taiwan acknowledges this debt but states it will repay only when it recovers the mainland and seizes the assets.

These obligations, and perhaps other US government claims on China, once threatened to invoke the provisions of the Johnson Act. However, opinions by two attorney generals, issued in 1963 and 1967, indicate that the Act does not prohibit export financing by American banks or other private entities if the credits facilitate bona fide commercial deals and do not involve a public distribution of securities. Even though the Act is only a token barrier today, one legal analyst has observed that: "While the attorney general's opinion does clarify somewhat the circumstances under which credit arrangements may be made with the Chinese, the Act has suffused such possible transactions in such legal uncertainty that the administration has wisely but so far unsuccessfully sought its repeal."

METEOROLOGY—BALLOONS OVER CHINA

The National Oceanic and Atmospheric Administration (NOAA) is interested in cooperating with the Chinese on a variety of meteorological programs, but as of early February NOAA was unwilling to discuss what those areas might be. The agency has, however, already received permission from the PRC to fly balloons over Chinese territory for data collecting purposes.

MFN—WHITHER 402?

Most-Favored-Nation tariff status (MFN) for China until recently seemed a remote possibility under provisions of the 1974 Trade Act. China could be granted MFN only on the condition that its emigration laws met the standards of Congress and the President. Section 402 of the Trade Act, dubbed the "Jackson-Vanik Amendment" after authors Sen. Henry Jackson and Rep. Charles Vanik, provides that no country judged by the President to have restrictive policies of emigration will have access to MFN, US government credits, credit guarantees or investment guarantees.

A waiver provision in the act allows the President to lift the freedom of emigration requirement for an 18-month period if he has "received assurances" that the concerned countries' emigration practices are heading in the desired direction. But otherwise, any trade agreement providing MFN for China would be subjected to a freedom of emigration test in Congress.

Bills submitted in the House and Senate in February 1979 may significantly alter the Jackson-Vanik provisions, making it possible for the President to extend a waiver without receipt of "assurances" from the beneficiary. If the legislation is passed, it would mean that trade restrictions could be lifted without, in effect, bringing the Chinese side to court in a test of their laws against ours. But the spirit of the Jackson-Vanik clause could be maintained by leaving its language in the books.

The amendments to Section 402, submitted by Sen. Adlai Stevenson (D-Ill) and by Rep. Les AuCoin (D-Ore), are substantially the same. The waiver requirement in each is amended to require the President to determine that the emigration practices of any nonmarket economy country will henceforth "lead substantially to the free emigration objectives of Section 402." AuCoin's bill also extends the duration of waivers from 12 months to five years, although first-time waivers will automatically be subjected to congressional review after 12 months.

What impact will extension of MFN have on China's export trade to the US? A number of studies have sought to answer this question (see *CBR* 5:6) coming up with answers varying from 15% to 90% depending on types of product and type of analysis. A reasonable estimate is 25–30% within two or three years.

CHINA'S NEW INVENTION LAW

Regulations or Rewards for Inventions in the People's Republic of China:

Article I: Thsese regulations are specially formulated to encourage inventions, promote modernizations of science and technology and accelerate socialist construction.

Article II: The inventions mentioned in these regulations refer to major new scientific and technological achievements which must also meet the following three conditions:

1. Never achieved before;
2. Advanced;
3. Proved applicable through practice.

Article III: The State Scientific and Technological Commission of the People's Republic of China (hereafter referred to as the State Scientific Commission) exercises unified leadership over the work of rewarding inventions throughout the whole country. The various departments of the State Council and the provincial, municipal and autonomous regional scientific and technological commissions (hereafter referred to as provincial, municipal and autonomous regional scientific commissions) are responsible for leading the work in reporting and examining inventions in each department and locality.

Article IV: Inventors' (collective or individual) reports on inventions should include the following details:

1. Name of invention;
2. Detailed description of invention;
3. Name of inventor;
4. Justification for regard as an invention;
5. Time invention was finished;
6. Date of report;
7. Reporting unit and comments on examination;

Article V: Procedures for reporting and handling of inventions are as follows:

1. Inventions are reported by inventors through the chain of command in organizations they belong to. At the same time copies of the reports are sent to provincial, municipal or autonomous regional scientific commissions and responsible departments of the State Council.
2. Upon receipt of reports on inventions, provincial, municipal or autonomous regional departments and bureaus should promptly conduct examinations, and those meeting the provisions of Article II should be reported to the relevant provincial, municipal or autonomous regional scientific commissions and responsible departments of the State Council.
3. Scientific and technological associations and academic societies at various levels under a province, municipality or autonomous region can make recommendations on inventions to relevant departments and bureaus of that province, municipality or autonomous region; The China Scientific and Technical Association and the various academic societies can recommend items of inventions to responsible departments of the State Council.
4. The provincial, municipal or autonomous regional scientific commissions and the responsible departments of the State Council should promptly organize examinations of the inventions reported, and those meeting the provisions in Article II should be graded for rewards and reported on the State Scientific Commission.
5. The State Scientific Commission will set up an evaluation committee for inventions to be responsible for evaluating inventions and grading them for reward. Rewards will be conferred after approval by the State Scientific Commission.
6. The procedures for reporting and screening inventions for specific national defense purposes will be laid out separately by the National Defense Scientific and Technological Commission (hereafter referred to as the

MILITARY—NO US ARMS TO CHINA BUT . . .

Since early-1978, when Beijing quietly began to hint to international arms dealers that substantial orders were on the way, the dealers have had their eyes on Washington as much as on the signals from the Chinese side. Washington must give the go-ahead on any sale of military equipment to China by member countries of COCOM—the Coordinating Committee on Export Controls to Communist Countries.

One of the first results of normalization was a dramatic shift in US policy with respect to such sales by COCOM countries. Meeting with British Prime Minister James Callaghan, French President Valery Giscard d'Estaing, and West German Chancellor Helmut Schmidt in early January, President Carter is reported to have assured the foreign leaders that the US would raise no objections to arms sales to China.

Immediately after the "Guadeloupe Summit," Carter reportedly informed the Soviet Union that it was the "sovereign right" of countries to sell defensive arms to China and also the "sovereign right" of China to buy them. All four leaders attending the summit had received letters from Soviet President Brezhnev prior to the meeting warning them of the consequences of arms sales to China.

Administration officials from Carter down to the working level have made it clear that the US is not prepared to sell arms or any other military-sensitive equipment or technology to China. But more than one observer has seen the tacit approval by the US of sales by its military partners as a crack in the door that may swing further open before long.

In December, the US formally acceded to a waiver of COCOM regulations to permit a $14 billion sale of two nuclear power plants to China by the French company Framatome. Since China has already established itself as a nuclear power, the sale was a low-risk one from the military angle but significant from the point of view of the publicity that the US apparently encouraged when the decision was announced. With less fanfare, the Carter Administration has approved a waiver of the International Traffic in Arms Control Act in order to permit sale of satellite communications systems to China by US companies.

CHINA'S NEW INVENTION LAW (Cont.)

National Defense Scientific Commission); and the National Defense Industry Office. Inventions for specific national defense purposes which have been examined, graded for rewards and approved by the National Defense Scientific Commission or the National Defense Industry Office will be reported to the State Scientific Commission for approval, and rewards will then be given.

Article VI: In rewarding inventions, it is necessary to adhere to the principle of putting proletarian politics in command and combining spiritual encouragement and material rewards with the emphasis on spiritual encouragement.
Rewards for inventions are divided into four categories according to their importance. The rewards, including honors rewards and cash rewards, are as follows:
1. An invention certificate, a medal and 10,000 yuan.
2. An invention certificate, a medal and 5,000 yuan.
3. An invention certificate, a medal and 2,000 yuan.
4. An invention certificate, a medal and 1,000 yuan.

Article VIII: Inventions of extraordinary importance shall be given special grade rewards, which should be reported by the State Scientific Commission to the State Council for approval.

Article VIII. Cash rewards for inventions by collectives (including coordinated units) should be reasonably divided among members according to their respective contributions. Cash rewards for inventions by individuals should be issued to those individuals.

Article IX: All inventions belong to the state. All units throughout the country (including units enforcing the system of collective ownership) may make use of inventions as needed.

Article X: Responsible departments under the State Council should offer suggestions on the publication of the particulars of an invention and on its classification, which should be reported to the State Scientific Commission for approval. The publication of the particulars of an invention for special use in national defense and its classification should be approved by the Science and Technology Commission for National Defense or by the Defense Industry Office.

Article XI. Before the particulars of classified inventions are supplied to foreign countries for foreign trade or other reasons, they must be approved by the State Scientific Commission.

Article XII. Overseas Chinese residing in foreign countries and foreigners may report their inventions to the State Scientific Commission. They will be examined and approved for rewards according to this regulation.

Article XIII. Controversies over inventions may be reported to higher-level organs which should seriously investigate, examine and handle such controversies.

Article XIV. All departments and units should encourage the masses to provide inventions and take a serious, scientific approach of seeking truth from facts. While enforcing the reward system, they must step up their ideological and political work, promote the socialist spirit of coordination and oppose such unhealthy trends as departmental egoism, individualism and lack of coordination. Those who hit at or suppress others trying to make inventions and who resort to deception regarding inventions or steal others' fruits of labor should be criticized, educated and rectified. Those involved in serious cases should be dealt with sternly or punished according to law.

Article XV: This regulation becomes effective the day the State Council makes it public. (December 28, 1978). Source: NCNA.

US companies interested in prospects for high technology sales to China, particularly in the electronics and computer fields, should continue to proceed with utmost caution. The Export Control Regulations have not changed with respect to controls on exports to Communist countries in general or China in particular. Some applications of the rules may change with time but, for the present, non-US companies will reap the benefits of the new US position.

PATENTS

Reciprocal arrangements for patent protection will be discussed when Secretary Kreps visits China in April or May this year. The Chinese side has already signaled readiness to accept a patent protection clause written into the trade agreement. There are also indications that China can, and will join the Paris Convention for the Protection of Industrial Property before the end of the year.

China joining the Paris Convention would eliminate the need for a separate clause on industrial property rights in a trade agreement, say Commerce Department officials. The Trade Act of 1974 stipulates only that protection equal to the Paris Convention should be established; if patents are already protected under the Paris Convention, the application of the Trade Act becomes irrelevant.

China has sent observers to meetings of the World Industrial Property Organization (WIPO), which administers the Paris Convention, including sessions in November 1978, which reviewed such issues as drawing inventors' certificates used by various countries (including China) more fully into Paris Convention operations, and the "Conflict Between an Appellation of Origin and a Trademark."

Barring China from immediate accession to the Paris Convention is the absence of any comprehensive system in China for patent protection. China is in the process of developing such a system, but protection is currently limited to an invention law, recently revised. Chinese legal teams have been working with Japanese patent experts since August 1978, and according to some reports a code on patent protection may be ready as early as June 1979. Commerce Department specialists are ready to offer their expertise as well, according to a spokesman of the Office of Patents and Trademarks. The official carrying the brief for patent protection on the Kreps mission will be Dr. Jordan Baruch, head of the Commerce Office of Science and Technology.

SHIPPING—CARGO PREFERENCE AGREEMENT ADVOCATED

As with aviation and exhibitions, there can be no direct shipping ties between the United States and China until the claims/assets issue is resolved. But unlike aviation, no maritime agreement is necessary to have direct shipping ties.

For texts of China's agreements and full analysis, see *China's Maritime Agreements,* a special report by Irwin Miller Heine, available from the National Council.

As of early February, the US government had not established a definite policy regarding a possible shipping agreements with the PRC, though the Departments of Commerce and State both said there will be an agreement. The main issue that the US must resolve before it begins negotiations with the Chinese is whether the US will press for a cargo-sharing agreement that would guarantee American shipping lines a certain percentage of the cargo to be carried between the US and China.

One of the most vigorous advocates of a cargo-preference agreement is Mr. Heine, who is an expert on Chinese shipping. In a study written for the Transportation Institute, Heine stated that such an agreement is necessary "if US-flap ships are to play more than a minimum role in US-China trade." Heine's recommendation is based on findings that the PRC's rapidly expanding merchant fleet carries an estimated 70 percent of its nation's foreign trade—more than any other nation in the world.

Before the US takes a definite stand on the subject, government sources said that they will first take a careful look at the bilateral shipping agreements China has with 12 other countries, the requirements of the domestic shipping industry, and the 1972 maritime agreement between the US and the Soviet Union.

Secretary of Commerce Kreps will discuss shipping on her April mission to the PRC. In January she indicated that such an accord could ultimately result in something similar to the Soviet pact, which gives both countries the right to carry at least one-third of the cargo between them, with the remainder for all other carriers. In practice, neither side carries one-third of the cargo but each side could if a shift in tonnage were necessary.

The US has traditionally opposed cargo-sharing agreements in the interests of free trade, arguing also that such accords are anti-competitive. On the other hand, proponents of cargo-preference maintain that such agreements are necessary in dealing with centrally-planned economies, which can lower shipping fees in order to gain a larger share of the market. The Chinese also attempt to corner a large share of the PRC's foreign trade for its fleet by exporting on a Cost, Insurance, and Freight (cif) basis, while importing on a Free on Board (fob) basis. That practice will almost surely be on the agenda of maritime talks with the US.

The Chinese have been able to handle such a large share of the shipping market because of their extensive acquisitions of both new and used ships over the past two years. China's merchant fleet now comprises about 700 oceangoing ships of 1,000 gross tons and over, totaling more than 10 million deadweight tons. By 1980 the PRC fleet is expected to have at least 20 million tons of dwt shipping under the PRC flag.

Although the big maritime issue between the US and China is cargo-preference, China's existing maritime agreements do not carry any such provisions. Countries having maritime agreements with the PRC are: Belgium, Denmark, the Federal Republic of Germany, Finland, France, Greece, Italy, Japan, the Netherlands, Norway, Romania and Sweden. The Chinese reached an agreement with Argentina last June whereby each country's merchant fleet would handle half the wheat and cotton bought by the PRC from Argentina.

Perhaps the three most important agreements in those agreements concern:

1) the exemption from the 3 percent tax imposed by China on the basis of gross transportation income derived from each voyage of a foreign nation's ships carrying outbound cargo or passengers from a Chinese port;

2) MFN treatment for ships calling at each signatory's ports; and

3) non-discrimination against each party's ships and crews in the other's ports.

TAIWAN—LITTLE CHANGE IN SUBSTANCE OF RELATIONSHIP

Despite the uproar from Taibei over the break in relations with Washington, the substance of relations between the US and Taiwan should remain the same as before normalization. On January 26, President Carter submitted to Congress a bill that would authorize the continued maintenance of commercial, cultural, and other relations with "the people on Taiwan," a statement now used by the US government to refer to both the authorities and the inhabitants of the island. These relations will be managed by and through an organization called the American Institute in Taiwan, a nonprofit group incorporated in the District of Columbia. The Institute will be staffed by State Department officials on leave of absence and will be funded by the State Department. Taiwan has created a similar non-governmental entity effective March 1, when all official relations between the US and Taiwan will cease.

The bill states that no requirements for diplomatic relations or recognition will apply with the respect to Taiwan. Likewise, whenever any law, regulation, or order of the US refers to a foreign country or government or similar entity, it will also apply to Taiwan. As a result of these provisions Taiwan will continue to enjoy such benefits as Most-Favored-Nation status and eligibility for Exim Bank credits. Until the bill is passed by Congress, all departments and agencies of the US government will continue to conduct relations with Taiwan on an unofficial basis.

Congress will probably amend the bill to contain some kind of provisions regarding US concern for the continuing security of Taiwan, prompting a threat from President Carter to veto the bill. Deng Xiaoping indicated, however, that the Chinese could live with a moderate amendment such as one proposed by Senators Cranston and Kennedy.

Assuming that the bill is passed and signed by the President, US relations with Taiwan will thus take on a form very similar to that used by the Japanese after they broke relations with Taiwan in September 1972. Japan now carries on its ties with Taiwan through an unofficial organization called the Interchange Association, while Taiwan handles its interests with Japan through a group called the East Asian Relations Association.

TAX TREATY—WILL BE DISCUSSED

No action towards negotiations on a tax treaty with the PRC had been taken as of early February, according to Treasury Department officials. Treasury Secretary W. Michael Blumenthal's party will include Emil Sunley, deputy assistant secretary for tax analysis, but no negotiations on a tax treaty are expected during the Blumenthal visit to China. Sunley will advise Blumenthal on other tax issues and do some investigative work on the Chinese tax system.

The US has tax treaties with 30 countries, including most Western countries, the Soviet Union, Poland, and Romania. Treaties are currently being negotiated with Yugoslavia, Hungary, and Egypt.

A tax treaty is not necessary, though it is usually advantageous when two countries are doing a lot of business with each other. A treaty defines when a country can and cannot tax nationals of the other country and provides for information exchange and ways of solving disputes. It could also assure a tax credit in the US for taxes imposed on a foreign country. Treaties are reciprocal and give up the right to tax when a minimal amount of business is involved.

Although US oil companies anticipating major contracts with the Chinese for oil exploration want the Chinese to tax them so they can get substantial reductions on taxes they would owe to the US, a tax treaty would not be necessary to regulate such cases. But it will be very much welcomed by US oil firms negotiating with Peking.

TEXTILES—WAYS AND MEANS?

Talks which began in Washington this spring between Chinese and US trade negotiators are keeping US textile importers—and not a few exporters—on the edge of their seats. At issue are China's growing exports of finished textile goods to the US. Twelve "sensitive" categories of textile products, ones which are regulated for most countries exporting to the US, have been singled out by the US side.

The industry's complaint is grounded in China's status as a nonregulated textile supplier. China is not a member of the General Agreement on Tariffs and Trade (GATT), which would automatically subject its exports to regulatory mechanisms. Nor has China shown interest until recently in entering into a bilateral textile agreement with the US.

Regulation is the bee in the US industry's bonnet. But its big stick is the textile lobby's power to block the Administration from promoting a pact on world textile trade in the US Congress. The Administration bill, to support the GATT clause waiving countervailing (penalty) duty on imports that have been subsidized by foreign countries, was embargoed by the House Ways and Means Committee in mid-February pending arrival at a satisfactory arrangement between textile makers and the White House. On February 15, the Administration reached agreement with the textile and apparel industries on import controls that was said to clear the way for the GATT bill.

Insiders to the three-way affair reported that the US industry sought a trade-off in negotiating the import control package: quotas for China in exchange for smooth passage of the President's bill. But information on the possible impact of the agreement on textile relations with China was not immediately disclosed.

China: Quick Feint, and a Commitment to Balanced Trade

Normalization has opened up endless vistas for US exports, at least in the minds of some. Normalization has also meant that both sides can look forward to a trade agreement under which controversies over exports can be settled amicably. Both possibilities opened up by the PRCs new diplomatic stature vis-a-vis the US could work to China's advantage in the current textile talks.

Before Deng, before Fang Yi, one of the first senior Chinese officials to come to the US to test the post-normalization environment was Madame Han Fang-yu, the senior official within CHINATEX responsible for the US market. Madame Han's portfolio was short but to the point: to convince the Administration that quotas on Chinese textiles which began only a few years ago and continue under abnormal conditions are premature.

Negotiations between Madame Han and the US side began on January 22. On the Chinese side were Han and CHINATEX officials Wang Shou-sheng, Teng Chun-jin, and Chen Kuei-ying. Huang Jianmo second secretary of the PRC Liaison Office (now Embassy) in Washington joined the group. Representing the interests of the Administration and US textile makers were officials of the Office of the Special Trade Representative and other concerned agencies. The initial team included Michael Smith, the Administration's chief textile negotiator, John St. John, from the State Department Office of Texiles, Arthur Garel, director of the Commerce Department Office of Textiles, Deputy Assistant Secretary of State William Barraclough, Dep. Asst. Sec. of Commerce Robert Shephard, and Dep. Asst. Sec. of Labor Herbert Blackman. Sylvia Stanfield of the PRC Affairs Desk at State served as advisor on Chinese affairs.

While the first round of discussions was inconclusive, the Washington conclave provided both sides an opportunity to state their case in full. From the Chinese viewpoint, the textile dispute has broader implications than the size of PRC textile exports alone. At stake are also relations with US suppliers of natural and synthetic fibers; if a reduction of exports is required on the Chinese side, purchases from the US may also have to be cut back. In China's state-controlled economy, the leadership tries to make foreign trade pay for itself, and at the FTC level this works out to an actual balancing of books.

Not Exporting for Charity

In arguing that textile restraints would further distort a trade that is already skewed in favor of the US, Madame Han stressed three themes:

- Discriminatory tariffs against China:

Until China gets Most-Favored-Nation status, China's share of the US market is effectively blocked from significant expansion. Cotton greige goods from the PRC, one of the major product areas subjected to US industry criticism, cost more than 10¢ per yard over the price of greige goods of US manufacture. Tariffs on Chinese textiles and other imports range as high as five times the rates which are charged on goods from countries with non-discriminatory tariffs treatment. If the US reaches a textile agreement with China outside the context of a general trade agreement, China will be the only regulated foreign supplier without MFN.

• Good faith shown by China on other controversial issues:

The settlement of outstanding claims between China and the US, which is the single greatest obstacle to negotiating a trade agreement, has been called by Vice Premier Deng Xiaoping and other leaders "a small problem" which may be solved rapidly. The Chinese side stands to lose money in almost any settlement that will meet the approval of the US Congress, perhaps as much as $100 million or more if US claimants are fully recompensed. Both sides know this, and the downplaying of claims/assets by the Chinese is taken as a sign in Washington that the Chinese will bend every effort toward establishing the conditions for a mature trade relationship with the US. In this context, curbing China's textile exports now would be untimely.

• Textile trade is already balanced in favor of the US:

While US trade officials are proclaiming rich prospects for US exports to China, there is an apparent disregard for the burden to pay that China faces. "The United States needs to expand its exports to all countries. We are striving to reduce our balance of payments deficit and to fortify the US dollar," Treasury Secretary Michael Blumenthal told assembled US businessmen in mid-January, urging them to explore the opportunities of the new China market.

One market which has already seen a huge payoff in US sales to China is textile raw materials. As of November 1978, US suppliers had shipped $281.7 million worth of cotton and $45 million worth of synthetic fibers to China in the course of the year, compared to about $40 million worth of textile fiber exports in 1977. The nearly 800 percent increase in US textile exports to China far outweighs the increase Cnina's textile exports to the US, in terms of value as well as percentage growth rates.

China's exports of textile goods to the US in 1978, estimated at $120 million, grew 96 percent compared to the value in 1977. Chinese officials have suggested that widening the gap between their textile import and exports to the US may make it necessary to turn to less restrictive markets for their imports. "We do not expect our trade to be balanced but the gap should not be bigger and bigger," Chinese trade representatives have stated. "We are not exporting for charity."

Leaving the Lids Off

The approach taken by US negotiators in the first talks has been conservative. State Department officials have said that they are less concerned with absolute numbers or quotas than with establishing a mechanism for control. "We must leave the lids off," one participant in the talks said. The possibility that other textile products than the ones currently under scrutiny may become problematic must be accommodated. But the US side also seemed ready to offer terms which would allow some of China's textile exports room to grow and expand.

Depending on the nature and stage of trade with the country involved, most US textile agreements stipulate a set of quotas on a large number of textile categories. For other categories, arrangements may be made for consultation in the event of rapidly growing exports or other signs of market disruption. It is the balance or mix of restrictive versus consultative arrangements with which the US side is most concerned; rarely are such relationships all one or other other.

The twelve textile categories in which the US side is actively promoting restraints are sheeting (China ranked third among all suppliers in January to August 1978); printcloth (China ranked first); twill and sateen (eleventh); duck (tenth); cotton gloves (second); men's and boys' unknit cotton shirts (fourth); men's and boys' unknit cotton trousers (third); women's, girls', and infants' cotton trousers (third); boys' wool sweaters (third); women's, girls', and infants wool sweaters (fifth); men's and boys' synthetic fiber sweater (fifth); and women's, girls', and infants' synthetic fiber sweaters (fourth). Cardinal number references are to China's position among regulated suppliers to the US market in the January to August period, 1978.

TRADEMARKS—TRADE ACT STIPULATES PARIS CONVENTION PROTECTION

China and the US have an informal arrangement on reciprocal registration of trademarks, dating from prenormalization times. But officials of the Commerce Department's Office of Patents and Trademarks are uncertain whether this arrangement will satisfy provisions of the Trade Act calling for trademark protection equal to that of the Paris Convention under a bilateral trade treaty. The treaty will serve to provide the Paris Convention protection required.

Signed by the China Council for the Promotion of International Trade, a letter to the National Council for US-China Trade in March 1978 promised protection to US trademarks registered in the PRC. (Under US law, PRC trademarks are automatically granted such protection.) Neither organization, however, represents its respective government, so that while many US companies have already registered trademarks in China (some 40, as of November 1978), the status of these registrations is unclear.

TRANSPORTATION—AIR AND MASS TRANSIT

Transportation Secretary Brock Adams was invited to China by Deng during the Seattle leg of the vice-premier's tour. Adams hopes to go in late spring or early summer, but in contrast to the Blumenthal and Kreps missions, his would be a technically-oriented visit. The main area of cooperation involving DOT would be civil aviation, with experts from the Federal Aviation Administration helping the Chinese to upgrade air traffic control facilities at Chinese airports. Another possible area of assistance would be urban mass transit.

ZOOS—PANDAS GALORE

Pandas at Washington's National Zoo, long a favorite of DC visitors, may be just the first of many zoological exchanges, say officials. Watch this space! 完

This article was compiled by Bill Armbruster, Nicholas Ludlow, Jim Stepanek, and Edith Terry.

Exporter's Notes

Briefly:

- ***"It's the real thing": Coca Cola contract symbolizes new era of US-China relations***
- ***Exim Bank legislation submitted by Sen. Stevenson; Rep. AuCoin tries again: Meanwhile, US companies exercise native ingenuity in financing contracts for developing PRC iron ore, copper resources***
- ***US sales to China swooping ever higher: agriculture, oil equipment leading the rest***
- ***PRC intrigued by US know-how; some deals, more in offing, China opens up bidding process***
- ***US bankers roll up their sleeves for action as more and more discover claims/assets issue is no obstacle to lending to China***
- ***Vice Premier Deng's tour of Atlanta's Peachtree Plaza may lead to more US hotel deals; meanwhile, more smoke than fire in hotel negotiations with China: Intercontinental still leads***

COCA-COLA REESTABLISHES RELATIONS WITH CHINA; US GOVERNMENT FOLLOWS SUIT

After a nearly thirty-year hiatus, China and the Coca-Cola Company agreed to reopen commercial relations under the "principle of mutual benefit, respect and trust." The agreement which will bring the world's most popular soft drink to the world's most populous nation was signed in Peking on December 13, 1978. Within thirty-six hours, President Carter and Chairman Hua agreed that the US and Chinese governments should also be normalizing relations.

It's difficult to imagine a more appropriate symbol of normalized US-Chinese relations than the 500,000 bottles of Coke that were sent into China as part of the company's first shipment on January 23. Initially, at least, the "real thing" will not be available to a billion thirsty Chinese. CEROILS is buying the beverage to satisfy the demanding tastes of China's tourists in Shanghai, Beijing, Guangzhou and Hangzhou.

Until the end of 1979, Coke will be supplied to China through Hong Kong, Japan and possibly the United States. Afterward, a bottling plant will be installed in Shanghai, to be built with Coca-Cola assistance and supervision. Distribution studies will then determine the need for additional bottling or canning facilities.

For those who want something more in their glasses than cola, CEROILS has also announced it will now be providing a wide assortment of whiskeys, gin, rum, cognac, and wines through Chinese hotels and friendship stores. Seventy-five centiliters of Chivas Regal will sell for approximately \$13.50 and a bottle of Paul Masson red wine will cost \$4.57. The arrangement was made with Seagrams.

AMENDMENT TO EXPORT-IMPORT BANK ACT SUBMITTED

On February 2, Senator Adlai Stevenson (D–Ill) submitted to the US Senate amendments to the Export-Import Bank Act and Trade Act of 1974 which could open Exim Bank financing for the PRC and ease the way for MFN tariff status for the PRC. Shortly afterwards a similar bill was submitted to the House by Congressman Les Aucoin (D-Ore). The Stevenson amendment would remove provisions in the current act which single out the USSR for discriminatory treatment, raise the credit ceiling for any Communist country to \$2 billion, and revise the Jackson-Vanik waiver provision tying emigration policies to Exim Bank credits and MFN treatment.

The proposed waiver provision would require the president to determine whether a communist country's emigration policies were in conformity with legislated requirements rather than requiring the countries themselves to provide assurances. The period of review of waivers would also be extended from one year to five years, according to the Stevenson amendment.

This amendment is the first opportunity that the 96th Congress will have to encourage trade relations with the People's Republic of China. Members of the 95th Congress voted down AuCoin's proposal last year to extend Exim Bank credits directly to China, but since the last congress recessed, President Carter formalized relations with the PRC and Vice Premier Deng has had his chance to do some personal lobbying on the Hill.

SINO-AMERICAN BANKING RELATIONS EXPAND

Sino-American banking relations have also improved. During the last months of 1978, a series of banks, including Chase Manhattan, Manufacturers Hanover, and Morgan Guaranty, joined First National Bank of Chicago in maintaining "full correspondent" relations with the PRC's Bank of China. First National Bank of Chicago was the first to gain such a privilege back in January of 1978. But by January 24, 1979, California's Bank of America surpassed the competition by announcing that it had established "full banking

***Kekou Kele*, or "can-mouth can-happy" hits the real China**

relations" with the BOC. Bank of America spokesmen maintain that this new status will allow the bank to offer China international financing of certain projects. Earlier, the United California Bank announced on January 10 that it had also established relationships with the Bank of China. American Security Bank of Washington, DC, and at least one other major US bank also established full relations with the BOC early in 1979.

AGRICULTURAL SALES WILL CONTINUE TO DOMINATE SINO-AMERICAN TRADE IN 1979

American agricultural sales to China, which accounted for more than half of last year's total two-way trade volume, will remain high through 1979. US Department of Agriculture experts are predicting that American agricultural shipments to the PRC should be over $800 million this year. By the end of January, Chinese buyers had already committed themselves to at least $500 million worth of purchases for the current calendar year.

US observers are now predicting that China will import at least 10 million metric tons of grain in 1979, compared with a previous record of 9.5 million tons in 1978. American farmers have already signed contracts for 2.1 million tons of wheat and 1.9 million tons of corn. These two sets of contracts, by themselves, will cost the Chinese over $450 million, based on current market prices, and additional grain orders are expected during the year. By year-end, as much as five to six million metric tons of American grain may be delivered to Chinese ports.

US cotton exports to China will also continue through 1979. As of mid-January, American brokers were committed to sending 214,000 running bales of cotton to China this year, valued at more than $60 million. Since China's domestic cotton harvest showed only modest increases in 1978, observers estimate that China's total cotton imports during market year 1978–79 will reach 2.1 million bales, up from 1.8 million bales in 1977–78. If so, US cotton exports to China in 1979 will probably match the record 550,000 running bale level of 1978.

PRC SIGNS THREE MAJOR MINING CONTRACTS WITH US FIRMS

On December 4, 1978, Bethlehem Steel revealed that it had signed an agreement with China to develop and expand an iron ore mine at Shuichang in Hebei Province. The contract, which covers technical, engineering, and managerial services, is valued at an estimated $300–400 million. (Bethlehem executives will neither confirm nor deny any precise figure, but a project of similar scale that the company completed two years ago in the United States reportedly cost $300 million).

Three days after the Bethlehem deal was signed, Fluor Corporation, a California contractor, reached agreement to develop a large copper mine at an undisclosed location in central China. For the first time, Chinese trade officials agreed to a reimbursable cost contract, which should run in the neighborhood of $800 million. The project, which includes the design and management of the copper mine and its concentrator, will be capable of producing 190,300 tons of ore a day.

Finally, in the largest deal of all, during the first week of January 1979, US Steel's president committed his company to develop the world's largest iron ore mining facility for the Chinese. Located at Qitashan in the northeastern section of China, the complex will produce 45 to 50 million tons of crude iron ore a year, which will be reduced to 20 million tons of concentrate and then 17 million tons of steel pellets. The cost of this contract is thought to be considerably over the billion dollar mark, representing the largest piece of business conducted between the People's Republic and a US company. Signing of the agreement came after three months of intense negotiations in Peking.

Although many details of these three contracts remain to be worked out (particularly financing arrangements), that they were signed has done much to alleviate past doubts as to whether China would actually sign major contracts with US companies. Together, the three contracts may mean over $2 billion dollars of business for American companies.

Beyond ferrous metals, the Chinese are known to be extremely interested in several more large mining projects. Alcoa has been in and out of Peking for the last few months, and reports of negotiations on bauxite mines and smelting facilities repeatedly emerge in Western press accounts. Coal mining, too, is a field in which the Chinese are likely to be considering large-scale foreign assistance in the engineering and development of mines.

PETROLEUM EQUIPMENT SALES CONTINUE

Just hours after Carter announced the normalization of US-China relations on December 15, LTV company signed a $40 million contract with China for the sale of oil-drilling equipment. LTV, a subsidiary of Continental Emsco, said it will deliver seven drilling rigs with the company's most sophisticated equipment, including two 1,500-hp diesel-powered land rigs capable of drilling 20,000 to 30,000 feet and five 2,000-hp electric rigs.

Also in December, Cameron Iron Works reported that in a record one-week negotiating session it had sold the Chinese 20 blowout preventers valued at roughly $6 million. The equipment, designed to withstand 5000 pounds of pressure, will be for 13⅝" land and jack-up rigs; 11" land rigs; and 7⅙" workover rigs.

In the final months of 1978, seismic recording systems were the most popular item on China's petroleum equipment shopping lists: After Geosource sold 12 systems, worth $15 million, in October, both Surcel (26 systems for roughly $20 million) and Texas Instruments (5 systems for about $4 million) signed contracts in November.

In addition, Greerco signed a $6.8 million contract for ten wax molders on December 20, 1978.

CHINA SIGNS PETROCHEMICAL DEALS WITH US FIRMS

Only one week after President Carter announced the normalization of relations with China, Pullman Kellogg won a multi-million dollar contract to engineer and construct a complete petrochemical process facility. The agreement, signed on December 22, calls for Pullman Kellogg to oversee the construction of a complex including meta-cresol, BHT, and acetone production. Technology for the facility will be provided by Hercules, Inc., and UOP, Inc. both American firms. Pullman Kellogg has had close ties with the People's Republic of China ever since it signed a $200 million contract with China in 1973 to build eight ammonia fertilizer plants across China. Six of these units are now operating in the PRC and the remaining two are expected to come on-stream later this year.

At the SCCC Stewart Roberts, Chairman of the National Council's Construction Committee with Vice-Minister of the State Capital Construction Commission Han Guang, female interpreter, Chang Chuan, Director of the Bureau of Planning of the State Planning Commission, Li Zhaoli, Director of the CCPIT's Technical Exchange Department, and at left, Ho Guangqian, Special Advisor to the SCCC, December 9, 1978.

US TECHNOLOGY TO CHINA, VIA ENGLAND, JAPAN

Union Carbide will provide China with gas-phase, high-density polyethylene technology for a 140,000 metric ton-per-year polyethylene plant to be built in Shandong Province by the British construction firm, John Brown Ltd. The contract, signed on December 19, 1978, calls for a cash payment of the roughly $51.5 million price tag. The British company will carry out engineering, supply, construction, and commissioning of the plant, while Union Carbide will offer technology as well as training for plant operators. The plant is scheduled to be on-line by early 1983, according to press accounts.

In another licensing agreement, Union Oil Company will sell China its unicracking technology for two 16,600 barrel-a-day plants to be built for China by the Japan Gas Corporation. The total cost of the JGC project, to be completed in three years, is thought to be roughly $80 million. Union, which has licensed its unicracking process to 34 plants around the world, will receive payment from the Chinese based on plant size.

In a know-how contract, Allied Chemical Corporation, a US chemical producer, announced on January 23, 1979, that it too would be training Chinese engineers. Allied's training, which will take place in 1981, will be on behalf of Germany's Zimmer AG. The Chinese technicians will eventually be assigned to Zimmer's polyester plant being built near Nanking.

In December, Texaco announced that it would license a synthetic gas generator process to China. No value of the technology was given.

MORE AMERICAN KNOW-HOW

Prior to Deng Xiaoping's visit to Washington, White House sources revealed that they would allow France to proceed with its plans to sell $2.2 billion of nuclear power plants which will employ Westinghouse technology. The two 925,000-kilowatt units will be built for China by Creusot-Loire's subsidiary, Framatome, with Westinghouse's pressurized-water reactor technology.

In addition to the French deal, Chinese officials are also reported to be negotiating with foreign firms to construct and refurbish large conventional power generating facilities in the south of China. At least one American firm is submitting proposals for these projects. In January, Fluor Corporation, the winner of the much publicized copper mine contract, also received a Chinese contract, worth $8 million, to develop several oil-processing facilities. The project will encompass three crude-oil stabilizer plants and six vapor-recovery units.

CDC SELLS TWELVE COMPUTERS

In December 1978, after more than a year of negotiations conducted by its French affiliate, Control Data Corporation completed a contract with TECHIMPORT for a line of computers to be used in oil exploration by the China National Oil and Gas Exploration and Development Corporation. Valued at $69 million, the deal will take 10 Cyber 172's, one Cyber 173, and one Cyber 175 to China. The Chinese have also contracted with CDC to upgrade two Cyber 172's, which were sold to the PRC through CDC's French affiliate in 1976.

Company spokesmen feel that most of the computers just sold to China will be placed in oil development sites across the country, although the more advanced models, the 173 and 175, may be held in Peking for research work. In addition to computer hardware, CDC's French affiliate also contracted with the Chinese to supply $50 million of software and support services.

CHINA CONTINUES TO CONTRACT FOR US HOTEL ASSISTANCE

Following Intercontinental's initial deal to build hotels for the tourists of China, a privately owned US company, Amherst Group, announced in December that it would also be providing hotel technology to the Chinese. The company claimed that it had signed a letter of intent to construct six international class hotels in China, including one 200-room complex in the Tibetan city of Lhasa. Amherst will build the hotels, for an estimated cost of $135 million, as part of a joint venture with Hong Kong-based Regent International Hotels, Ltd.

Reports that another US-Hong Kong consortium of hoteliers are negotiating a third construction agreement with the Chinese have not yet been confirmed. Back in November, Hong Kong press reports indicate that such a group, headed by Hyatt International Corporation, was proposing to build 10,000 first class hotel rooms in China for approximately $1 billion. (An Australian group, meanwhile, has contracted to build motels for China).

Additional Sales

Dwarfed by the multi-million dollar engineering and construction contracts, many American companies have quietly completed small but significant contracts with the PRC during the final months of 1978 and early 1979.

Electro Scientific Industries, back in the fall of 1978, entered a contractual relationship with MACHIMPEX to supply several resistance testing systems to the PRC.

In October, another American firm sold the Chinese more than $2 million of data acquisition systems and associated transducers and instrumentation, much of which will be used in a gas turbine testing system. The contracts for these instruments were negotiated by B & F Sales Corporation, an American instrumentation manufacturers' representative.

PRICE LIST FOR WINES AND SPIRITS AVAILABLE AT HOTELS AND FRIENDSHIP STORES
(All Prices in Chinese Currency)

	Size	Price in RMB
	WHISKIES	
Bourbon Whiskey		
Four Roses Bourbon	75.77 Centiliters	6.50
Canadian Whiskey		
Crown Royal	75.77 Centiliters	14.00
Seagram's V.O.	75.77 Centiliters	7.00
Irish Whiskey		
Old Bushmills	75.77 Centiliters	7.00
Scotch Whiskey		
Chivas Royal Salute 21 years old	70 Centiliters	85.00
Chivas Regal 12 years old	75.77 Centiliters	22.00
Glenlivet Single Malt Whiskey	75 Centiliters	17.00
William Longmore 12 years old	75.77 Centiliters	17.00
Something Special	75 Centiliters	12.00
100 Pipers	75.77 Centiliters	7.00
Passport	75.77 Centiliters	7.00
Queen Anne	75 Centiliters	7.00
	GIN	
BRITISH		
Boodle's	75.77 Centiliters	7.50
Burnett's	75.77 Centiliters	6.50
	RUM	
JAMAICAN		
Captain Morgan-Black	75.77 Centiliters	7.00
Captain Morgan-White	75.77 Centiliters	7.00
Puerto Rico		
Ronrico-White	75.77 Centiliters	5.00
	COGNAC	
Augier V.S.O.P.	70 Centiliters	20.00
Augier Napoleon	70 Centiliters	40.00
	CHAMPAGNE	
Mumm's Cordon Rouge N.V.	77 Centiliters	20.00

By early 1979, several more electronic instrument contracts were completed. At least two American companies signed to supply Chinese construction and research vessels with navigation and communications equipment. Then on January 16, Varian Associates completed a $5 million contract for spectrometers.

Elsewhere, Euclid, Inc., an Ohio subsidiary of Germany's Daimler-Benz, signed a $7 million contract in early January for ten R-170 copper mining trucks and replacement parts.

Late in December 1978, Joy Manufacturing Company announced that it signed its second contract with the PRC, for $1.25 million of coal loading machinery and spare parts. Earlier in 1978, Joy had agreed to sell China $6 million of continuous miners and shuttle cars.

US TRANSPORTATION EQUIPMENT, POWER GENERATION TECHNOLOGY ATTRACTING ATTENTION IN PEKING

After Peking completes its current round of mining contracts, Chinese traders may then turn their attention to the transportation sector. Rumors in Peking indicate that the Chinese may be willing to sign large agreements with foreign, perhaps American, firms to build manufacturing facilities for

PRICE LIST FOR WINES AND SPIRITS AVAILABLE AT HOTELS AND FRIENDSHIP STORES (continued)

(All Prices in Chinese Currency)

	Size	Price in RMB
WINES		
AMERICAN		
(Red Wine)		
Paul Masson Rubion	75 Centiliters	7.50
(White Wine)		
Paul Masson Pinot Chardonnay	75 Centiliters	7.50
FRENCH		
(Red Bordeaux)		
Barton and Guestier Pontet-Latour	75 Centiliters	8.00
(White Bordeaux)		
Barton and Guestier Pontet-Latour	75 Centiliters	7.00
GERMAN		
(Moselle)		
Julius Kayser Bernkastel Reisling	70 Centiliters	8.00
(Rhine)		
Julius Kayser Niersteiner	70 Centiliters	7.00
Italian		
(Red Wine)		
Ricasoli Chianti Classico	75 Centiliters	6.00
(White Wine)		
Ricasoli Soave	75 Centiliters	5.00
Spanish		
(Red Rioja)		
Bodegas Palacio Glorioso	75 Centiliters	6.00
(White Rioja)		
Bodegas Palacio Glorioso	75 Centiliters	6.00

Source: China National Cereals, Oils, and Foodstuffs Import and Export Corporation

trucks and other heavy construction or transportation vehicles. If they materialize, these contracts would be at least as big, if not bigger than, the recent mining deals.

Locomotives are also high on China's shopping list. According to Chinese officials China may be buying as many as 200 units, but from whom remains unclear. A key decision remains for Chinese planners—will the PRC adopt the AAR or the UIC system? The American system makes sense for China.

WESTERN SURVEYS OF CHINESE WATERS

Having committed themselves to Japanese seismic studies of the Bohai Gulf, Chinese petroleum officials are now focusing their attention on the development of the Yellow Sea. As part of this effort, the Chinese Petroleum Corporation has reportedly asked British Petroleum to organize a seismic reconnaissance survey of the Yellow Sea. BP, in turn, has notified several international oil companies, including US firms, to find assistance for the expensive data collection process.

NASA OKs SALE OF SATELLITE, GROUND STATIONS TO PRC

Late in 1978, two PRC delegations arrived in the US seeking positive confirmation of a project first proposed by White House science and technology officer Frank Press during his visit to China last summer. The project is to assist China in developing a space-age communications network. Access to LANDSAT data and launching services will be provided by NASA, while the private sector is expected to contribute satellite communications equipment and services worth a possible $500 million.

Now written into the US-China Science and Technology Agreement, the viability of the project is no longer in doubt. The US side has agreed to sell China the most advanced US technology available, ready for operation. Talks between US and Chinese officials in Washington in mid-December resulted in the overturning of NASA's earlier decision to sell only low frequency C-Band (4-6 gigahertz) equipment to China.

As it now stands, NASA is ready to allow sale of a more advanced type of satellite. According to NASA spokesman Dr. William Raney, NASA originally proposed the lower ceiling because of a misunderstanding of the precise areas of technology the Chinese wanted. These turned out to be educational TV broadcasting and telephony rather than data processing. Consequently, NASA was able to promise higher frequency KU-Band (12-14 gigahertz) sets.

China will be one of only two nations that have purchased such powerful satellites from the US. Recently, Canada purchased a similar set, the launching of which was viewed by the Chinese party which carried out the talks with NASA on December 15.

Representing NASA's counterpart in the PRC, the Chinese Academy of Space Technology, the delegation came under official NASA auspices. Leader of the group was the Academy's president, Ren Xinmen. The group visited a number of private companies as well as viewing NASA installations. Private sector hosts included Ford Aerospace, Hughes Aircraft, TRW, GE, RCA, COMSAT, General Telephone and Electronics, Western Union International, and Rockwell International. According to Dr. Raney, no final decisions have yet been made.

One particularly interesting aspect of the project as a whole is that the Chinese have advertised that they will conduct bidding in the "American Way." RFPs for systems design and definition will be offered first. When the design phase is completed, a second round of RFPs will be offered for the hardware package; first, space vehicles and control systems, then the commnications gear. Unlike many other countries, China will not hire a systems manager, sources close to the negotiations have stated.

The understanding on space cooperation between China and the US establishing the framework for future telecommunications sales was reached in Washington on December 28, 1978. Follow-up missions from the PRC Ministry of Posts and Telecommunications as well as the Academy are expected to settle the specifics of the satellite deal before June 1979. The first of these was scheduled to arrive in the US in the last week of February (see Council Activities), led by the president of the China National Posts and Telecommunications Equipment Corporation, while the Minister of Posts and Telecommunications is believed to be preparing to lead another delegation to the US later in 1979.

The eventful meetings with the Chinese in December left only two "voids," according to Dr. Raney. Although the Chinese stated that they wanted to buy "a lot" of ground station equipment, they did not specify in talks with NASA how much or of what type. Raney was told that China's ultimate goal was to have a TV system with tens of thousands of small receivers, thus minimizing installation of new land-line cable facilities. Nationally, the Chinese hope to have 40,000 to 60,000 receiver-only ground stations, some of which will be acquired from abroad. The plan calls for the rapid upgrading of China's domestic manufacturing capacity. Purchases of foreign equipment will level off as quickly as the Chinese industry completes the transfer of technology required to achieve the plan targets.

The second area in which a gap was left in the agreement was the extent of the know-how that will be granted export clearance. NASA waived the requirements of the International Traffic in Arms Act to enable the satellite sale to go through. But the waiver does not represent a policy shift towards relaxing controls on high technology exports to China in general. Dr. Raney anticipates problems in curbing the eagerness of the Chinese to acquire design and manufacturing technology, generally barred for export to Communist countries in the telecommunications field.

Another group visiting the US at the same time as the Academy mission was more explicit in presenting Chinese requirements for telecommunications ground equipment associated with the satellite deal. Arriving in the US on November 15, the nine-member group from the China National Posts and Telecommunications Equipment Corporation met with companies including Western Union International, Ford, ITT, AT&T, GT&E, Hughes, GE, RCA, and Hewlett-Packard. Billed as the "MACHIMPEX Technical Survey Team," the group actually included only one official from the trading corporation. The rest of the party were engineers and officials of the Ministry of Posts and Telecommunications. Leader of the group was Deputy General Manager of the Posts and Telecommunications Equipment Corporation Yue Die.

According to company sources, the delegation talked about buying as many as 30 ground stations from the US, ranging in size from 100-footers to one-meter receive-only models. The latter are ideal for use in Chinese villages with little or no access to land-line telecommunications systems. The larger ground stations on China's shopping list seem to be replacement items for exhausted sets purchased five years ago from Japan and the US. China also wants medium-sized, 10-meter dish stations for installation in 12 to 15 Chinese cities other than Shanghai and Beijing, where the older sets are located.

A number of related areas came under discussion. Interconnecting facilities for ground stations must also be purchased, and the Chinese seem to be focusing on microwave systems, including the portable microwave equipment developed by the Army Signal Corps. All kinds of terminal equipment were mentioned by the team as possible orders, from teletype and facsimile transmission equipment to telephones and switching boards.

NASA gave China the go-ahead to purchase a LANDSAT ground station to process earth resources information in the December talks, and a number of companies have turned their attention to preparing bids on a possible contract. As many as 30 US companies manufacture LANDSAT components, but the field had narrowed down to

Barbara Howar, Jerry Rafshoon at reception following Kennedy Gala

three—Ford, Lockheed, and GE—according to reports in mid-January. A LANDSAT station can cost anywhere from $5 million to $30 million.

Part of the agreement on the Chinese side is an understanding that other countries will be able to buy LANDSAT information developed by China. LANDSAT will enable the Chinese to obtain information on agriculture, forest cover, and surface deposits of some minerals. Once the Chinese have signed agreements with companies, the sale will have to be approved by the Export Control Administration.

SHANGHAI ADOPTS MADISON AVENUE TECHNIQUES

Commercial advertising, banned in China since the Cultural Revolution, is making a comeback. Ads in the Shanghai newspaper *Liberation* have revealed the existence of a competitor for Coca Cola—a local brand called "Lucky Cola" that reputedly offers "a taste which revives the spirits and a lightness pleasing to the palate." Also designed to revive the spirits is a "vitamin-rich" beer whose merits have been extolled in the newspaper. Ads have appeared for "Peony" facial cream and "Butterfly" hair oil. Regular usage of the latter is guaranteed to produce a miraculous transformation of gray hairs into black.

The paper also produced the first ads for a foreign-made product—the American film "Convoy," starring Kris Kristofferson and Ali McGraw. The film had previously played to capacity crowds at Beijing movie theaters.

Editorials have appeared in other newspapers endorsing the use of advertising in the press and on television. One editorial even stated that foreign products should be advertised on Chinese television. 完

Importer's Notes

Briefly:

- ***Textile talks reveal Chinese talent for subtle persuasion; Council Committees assume supportive role.***
- ***Importers assess impact of barriers to trade in Kung Fu shoes; clothespins feeling the pinch.***
- ***1978 imports forge ahead with highest ever value of shipments.***
- ***PRC dabbles in advertising media; may soon approach US market with glossy spreads, TV sales pitches.***
- ***Groundwork laid for transformation of major Chinese cities into international trade entrepots.***
- ***More exclusives and more oil to lubricate the import trade.***

GENERAL

US imports from China in 1978 showed the highest percentage growth since 1974, jumping 60 percent over the 1977 level to $324.1 million. At that, the year-end figure fell somewhat short of expectations; but observers have refused to scale down their estimates for trade in the years to come as MFN and other trade benefits become available for the PRC. According to National Council estimates, if China is granted both MFN and GSP in 1980, imports could exceed $2.9 billion by the year 1985.

If and when China gets Most-Favored-Nation status, traders on both sides of the Pacific will be able to experiment more freely with the mix of products marketed in the US. Until then, the upward climb of sales to the US will be a gradual one, with the charts dominated by China's traditional export products—handicrafts, textiles, minerals and industrial chemicals.

The course of PRC exports to the US in 1978 was characterized by even-handed expansion. The latest statistical breakdown indicates that the pattern of major import categories and topranking commodities changed slightly compared to 1977 but hardly at all compared to June 1978. Except for tea and carpets, the top ten imports in 1977 held on to their places, if not their relative positions, in the January to November period of 1978. During the first eleven months of 1978, printed cotton shirting made it from the fourth to the top spot, with total sales of $19.8 million (compared to $8.0 million in all of 1977). A similar spectacular leap was made by unwrought tin from the eleventh place in 1977 to the second in January to November 1978. Sales of tin almost trebled the total 1977 level at $15.5 million. The third place as of November 1978 was held by feathers, gracefully drifting down from the position of overall leadership held by the commodity in 1977 but with increased sales. Shipments were valued at $15.2 million in November 1978 compared to $12.4 million in 1977.

Other topranking imports from the PRC in November 1978 included fireworks ($11.1 million); antiques ($10.0 million), down not meeting federal standards ($9.9 million); white cotton sheeting classes A, B, and C ($7.3 million); bamboo baskets and bags ($6.6 million); crude bristles ($6.4 million); and cashew nuts ($6.4 million).

By Import Schedule A categories, the major types of imports from China as of November 1978 were textile fibers and products, with total value of shipments at $112.5 million; animal and vegetable products, at $66.7 million; miscellaneous products (Schedule Seven), at $47.7 million; and metals and metal products, at $30.8 million. The total value of imports as of November 1978 was $307 million, with shipments for the month of November up 226 percent from November 1977.

CHINESE REFINERY PRODUCTS MAY HEAD FOR US

The involvement of US companies in the Chinese oil trade may lead to a flow of refinery products as well as crude oil from China to the US.

It was learned in January that at least one US firm, Chemoil Industrial Ltd., is negotiating with SINOCHEM to bring China-produced gasoline to the US. The company has already contracted with SINOCHEM for 130,000 tons of diesel fuel valued at $17.5 million but little or none of the contracted amount was allocated for shipment to the US. Nearly four years of talks went into the contract, according to sources close to the sale.

About the same time as Chemoil's diesel fuel order was scheduled to leave China via Dalian Port, the first tankload of Chinese oil from Daqing Oil Field arrived in the US. Part of a 500,000 ton order placed by Coastal States Gas Corporation late last year, the crude will be used for stoking power plants in the San Francisco area.

COUNCIL DELEGATION HELPS FIRM LAND EXCLUSIVE

No one ever said that profit was the only motive behind hosting a Chinese delegation visiting the US. Yet many companies importing from China have found that delegations provide a long-term entree to the China market.

Among the US companies that have enjoyed concrete results from Chinese selling delegations in 1978 is a Tulsa-based floral distribution company called Florafax. Meeting with a National Council-hosted delegation from China National Arts and Crafts Import and Export Corporation (ARTCHINA) in early September 1978, the company held discussions with Chinese trade officials that led to resolution of some of the most difficult problems standing in the way of a large contract for import of silk flowers from ARTCHINA's Dalian branch.

The quality specification that had Florafax most concerned was the coloring of the flowers. The company knew that China sells $5 million worth of silk flowers annually to West Germany, one of the most exacting floral markets in the world. But it did not know if it could convince the Chinese to supply them with a comparable product.

The major problem, according to company spokesmen in September, was that the dyes used by the Chinese were too loud and garish for US tastes. The company helped the Chinese group come to a better understanding of the market by providing samples of flowers imported by Florafax from other countries. A visit to the Dallas showroom of the Florafax wholesaler was also lined up, where the delegation viewed dried and silk flowers marketed by the company and listened to seminar presentations by top company executives. Florafax Chairman Richard Hughes and Director John Whitney explained how flower stems were wrapped in the US and how to choose colors for flower production that coordinated well with colors in fashion in interior decorating.

The delegation, escorted by Council Importers Associate Carolyn Brehm, wound up its business in late October and headed for home. The company followed up its Council contract, obtaining an invitation to the Canton Fair with Council help. Chairman Hughes and Florafax President J. M. Schmidt led the company team, which proceeded on to Beijing after the conclusion of business at the Fair.

The result of the trip was a $650,000 contract on an exclusive line of silk flowers, announced on Christmas Day. Crucial to the arrangement from the point of view of Florafax was the agreement on two conditions: that the Chinese corporation would commit itself to compliance with Florafax standards of quality and design; and that delivery schedules would be met. Failure to meet these conditions would result in dropping of the order.

At this point the company began to get the payoff from the care it had given to its initial talks with the Chinese officials in Dallas. The answer to the refining of dye colors turned out to lie in technical cooperation with the producing factory in China. The Chinese have agreed to work with Florafax design specialists until the precise blends desired by the company are achieved. While the process may take a long time, Florafax' experience in other countries has made it certain that the investment of time and company expertise will be worthwhile.

MORE EXCLUSIVES

Other US companies that have signed exclusives with Chinese corporations in recent months are Summit, an Oklahoma City-based firm, for a C612 lathe from EQUIPEX; bi ren cold tablets by Henry L. Strauss with CHINATUHSU; silk calendars by H. Yang Ltd. with CHINATEX (exclusive distribution for entire world); grasscloth wallpaper by K. J. Shaw Company Inc. of Palm Desert, California, with INDUSTRY; and a nationwide exclusive for cocoa cake, cocoa butter, cocoa nibs, and cocoa powder by Walter Keats and the Midwest Trading Company, with CHINATUHSU.

PRIME TIME IS "GOLDEN"—MADISON AVENUE, BEIJING

The rage for modern business and marketing techniques has swept China firmly into the advertising age. One writer in the Chinese press claims that advertising will "turn chaos into order" and "enliven and brighten the socialist market." Recent developments are expected to provide improved marketing resources for companies engaged in both the buying and selling ends of the China market.

The kickoff of domestic advertising in China came in mid-January with the simultaneous publication of an editorial extolling the advertising business in the Shanghai *Wen Hui Bao* and the appearance of toothpaste ads in the *Tianjin Daily*. The choice of subject for the first ads was a classic one, endeared to the hearts of all those who have passed Crest tests or are convinced of the merits of fluoride. According to a wire release from the China News Service appearing on January 16, two days after the great event, the *Tianjin Daily* experiment was popular with consumers and had an immediate impact on sales.

Toothpaste and other ads placed by domestic companies are only the beginning of a great wave of advertising, according to Ding Yunpeng, author of the article in the *Wen Hui Bao*. Enthusiastically, Ding advocates the introduction of foreign advertising in the Chinese media. In fact, the China Council for the Promotion of International Trade has been soliciting foreign promotional copy for the last year, allegedly for educational uses, and reportedly at least one tape has been aired on Peking prime time (see *CBR* 5:2, p. 30).

Somewhat further away from immediate realization is the use of advertising to promote sales of Chinese products abroad. Despite the well-known value of advertising as a means of reaching distant markets, for the moment China may concentrate on opening up vast stretches of empty media space in Chinese television, radio, magazines, newspapers, and alas, billboards to eager Western customers.

IMPORTERS STEERING COMMITTEE SEEKS NEW MEMBERS, GEARS UP FOR A YEAR OF CHANGE

The National Council's Importers Steering Committee is seeking new Council members to join its ranks in preparation for a year of unprecedented change.

Ahead lies a year in which resources of the committee will be strained to the limit. MFN for China may be granted in the near future, direct shipping and banking links forged, and year-round offices for US companies in Beijing will become available. The trade with China is suddenly branching out in many directions: FTCs are soliciting advice on creative marketing of their products, inviting production-line participation by foreign companies, talking about equity and joint ventures.

Peril as well as profits are inherent in this emerging new market. Mapping the ground rules which are yet unformed will be the committee's most important job in the months to come.

Charged with forming overall Council policy toward issues of the import trade, the Importers Steering Committee currently has 14 members. Each member in turn represents different business areas as they relate to US-China trade in chemicals/pharmaceuticals, metals/minerals, textiles, light industry/handicrafts, and native produce/foodstuffs.

The next committee elections will be held in May 1979, when several vacancies will become available. Persons interested in submitting their candidacy for memberships should understand that the committee is not a pro forma body. Regular meetings are held in New York City and attendance is mandatory. Committee members are called upon to carry out certain tasks on behalf of the committee from time to time. A long-term commitment to trade with the PRC is essential for effective participation in the work of the committee.

Interested and qualified people should contact George M. Krieger, Chairman, Importers Steering Committee, tel. (914) 683-8000. Or write Mr. Krieger at ACLI International, 717 Westchester Avenue, White Plains, New York 10604.

Prime time on Chinese television may be the first area opened up to bidding. The author of the *Wen Hui Bao* piece, entitled "Put Advertising in Its Proper Perspective," promises great things once advertising reforms have been carried out on PRC official networks. With the introduction of advertising viewers will no longer suffer an "involuntary period of respite" between programs (on Chinese TV today intermission signs are broadcast to fill up the gap). Instead, the hours between 7 and 9 pm could become a "golden period" as they are in the West. "Advertising during this period produces the greatest results and is very expensive. One minute can cost several hundred thousand US dollars."

Nonetheless, the author admits that knowledge of advertising techniques is almost nonexistent in China at present. The solution he advocates is to institute crash courses in advertising in Chinese research and technical institutes offering instruction in market research methodology, consumer psychology and psychographics, and market segmentation. Hope is offered to emerging literary talent in a call for vivid, graphic language to get the message across.

When it will be possible to approach FTCs directly to solicit ad space or copy is still unknown. At least one advertisement for products of a Chinese company has appeared in the Hong Kong press (see *CBR* 5:6 p. 60), an advertising market already saturated by the advertising campaigns of PRC agencies based in the British-administered territory. Hong Kong has acted as a laboratory for China's nascent promoting industry.

The ground rules for advertising in China are expected to differ from Western practices as far as Chinese enterprises are concerned, although foreign companies will probably have to settle for the high rates they are accustomed to abroad. Advertising in China, insists the author of "Put Advertising in Its Proper Perspective," will be able to tread the fine line between sheer greed and good business sense.

The good points of advertising will be absorbed without the bad, according to Ding. Advertising will "guide the consumer to merchandise and stimulate sales." Even more importantly, it will improve product quality, supplement state efforts to selectively guide consumption, improve the relation between production and sales departments, and even promote health and pollution control campaigns.

All this is part and parcel of "socialist advertising," an art which will help transform China aesthetically and economically. "Good advertising can make our cities beautiful, lift our spirits, and make us feel proud of a thriving socialist economy or culture in a cheerful artistic atmosphere," writes Ding. An impractical vision? Yes; but with a hint that Madison Avenue will have to study more than consumer market trends and viewing patterns before making its move in the new China market.

FTC DEVELOPMENTS

In November 1978, the upper echelons of China's foreign trade establishment met in Peking to map out new policies and programs. Since then, hardly a week has passed without new ventures in the international marketplace, announced with appropriate fanfare. China is now preparing solid ground for modernization of its foreign trade apparatus. So far, efforts have been concentrated on four nuclei of foreign trade enterprise: the municipalities of Tianjin, Shanghai, and Beijing, and Guangzhou (Canton) City. These four areas are serving as test laboratories for programs that may be implemented nationwide in years to come.

• Tianjin: Coordinating foreign trade

Of the four areas, Tianjin seems to have taken the organizational lead. At a "municipal mobilization meeting on foreign trade work" in mid-November, party leaders called for the establishment of a foreign trade leading group and a foreign trade office to handle administrative work. The latter organization is under the supervision of the municipal revolutionary committee and the former under the Tianjin CCP committee.

The work report from the November meetings describes Tianjin as "the gate of the capital. Here are fairly rich maritime and oil resources, a relatively large contingent of industrial staff and workers and science and technical personnel, a rather large industrial production capacity . . . all conditions are conducive for making Tianjin one of China's modern industrial, scientific and technological, and export trading basis." (Tianjin City Service, November 17, 1978)

Since November, a number of Tianjin's foreign trade organizations have begun the attempt to establish uniform and regular communication channels with companies abroad. A few messages are being sent out to foreign customers in bulk. One such was a communique from the Tianjin branch of Bank of China sent to banking customers in late December. Written in standard memorandum format, the bank announced it was giving "special attention to minimize reciprocal (sic) inquiries." The letter instructed customers to use the branch reference number in correspondence or cables and provide detailed documentation of commissions and other deductions or additions to L/C payments. Warning was given to customers not to send checks to the bank drawn on foreign banks, and to promptly remit all bank charges along with payment of the charges incurred.

The Tianjin Branch of MACHIMPEX has directly solicited help from the National Council in reaching the US market. Seeking to introduce a line of agricultural, orchard garden, and hand tools made in Tianjin to the US market, branch manager Zhu Wujiu asked for instruction in entering the market and establishing contacts with importers of hardware and tools. "We are in the dark to know the requirements for Agricultural Tools, etc., arising from the market of the United States and meanwhile, we are intended to correspond with importers of Hardware and Tools." This is perhaps the most direct request for marketing assistance ever received from a branch FTC, although head offices of FTCs have sent out similar requests in the past.

• Shanghai: Going Direct, Revamping, Centralizing

Shanghai's decision to set up 26 plants and a silk corporation specializing in foreign trade, announced in November 1978 (see *CBR* 5:6, p. 56), has had happy results for Shanghai's economy. According to a December 18, 1978 report in the *People's Daily*, as a result of the new administrative structure the Shanghai Number Two Woolen Textile Mill was able to cut delivery time for fulfillment of foreign orders from five to two months. *People's Daily* also reported that specialization for export was "conducive to renovating old plants" and that future expansion of numbers of export-only plants was in store.

The export-only plants, whose managers can negotiate export contracts directly without passing through intermediate channels, represent a basic shift in industrial organization in Shanghai which municipal leaders seem determined to augment.

At a January conference of Light Industry Bureau Directors held in the city, the major topic of discussion was how Shanghai could complete the transition from "old light industrial base" to modern export and production base. Decisions were made that will affect light industrial enterprises across China, including the revamping of old factories ("In the course of transforming technologies used in old factories, we will meet with many problems which we should solve while doing our work"), pushing the specialization of industry still further ("specialized companies should be smaller in scale and coordinate with one another in producing complete sets of equipment"), and further reducing departmental controls on "basic-level enterprises."

Shanghai is already on the way to becoming a leading processing center for foreign companies, second only to Beijing. At least three and possibly more coproduction contracts have been signed; with the US firm Oxford Industries for production of corduroy suitings, with the Japanese trading firm Itoman for pajamas (which will be marketed in the US by Host Pajamas of New York), and with a raincoat maker, the Japanese company of Okamoto Riken Gomu, to produce 10,000 raincoats monthly for the Japanese market.

• Guangzhou: Year Round Trade Center

Guangzhou, site of the biannual Canton Fair and located in the province traditionally most susceptible to foreign influences and trends, has been beefing up the activities of Guandong Province branch FTCs since late 1977. Among other developments reported by the National Council's representative in Hong Kong, John Kamm, have been the establishment of export offices in Guangzhou by FTCs (MACHIMPEX, MINMETALS, and ARTCHINA); creation of specialized departments handling provincial specialities, with offices at the Canton Fair complex; and the opening of export offices for provincial and municipal organizations in Guangzhou.

According to Kamm, advertisements placed in Hong Kong newspapers have encouraged importers to correspond directly with the Guangzhou offices representing export bureaus of provinces as far away as Heilongjiang and Jilin. All this is part of a trend, Kamm speculates, that will make Guangzhou a year-around trade center, building on the advantages the city already has in its proximity to Hong Kong and the facilities of the Canton Fair building and grounds.

Recent visitors to Guangzhou have been approached unabashedly by managers and directors of local organizations seeking information about foreign products and markets (see "Canton 44: Beyond Expectations," *CBR* 5:6). Delivering the type of request that normally comes from FTC head offices, Wang Miansheng of the Canton Machine Tool Research Institute asked Council Importers Services Director Suzanne Reynolds for detailed information and catalogues on a whole range of US machine tools: boring machines; milling machines; universal lathes; grinding machines; steel beams; material for sealing oil leaks; and gear hobbing machines. Wang asked that responses be sent to him at the institute in Guangzhou.

• Beijing: Establishing Industrial Park, Export Zone

Following news of a world trade center to be built in Peking two to three years hence, come announcements from importers who have been contacted to assist in setting up an industrial park in China's capital. Sponsored by the Beijing branch of LIGHTINDUSTRY, the project entails the development of a completely integrated complex for production of leather, plastic, nylon, canvas and corduroy garments including gloves, cloth jackets, and ski jackets. Under the arrangement being sought by Beijing, foreign participants would put in the machinery and be repaid in goods, with options to buy 100 percent of output.

TEXTILE COMMITTEE—WANTS INFORMATION

With the progression of talks on orderly growth of Chinese textile exports to the US market, the National Council's Textile Committee is working actively with both the Chinese and US sides to promote mutual understanding.

One of the most active of the Council's Importers' Committees, the Textile Committee has already made several presentations to CHINATEX on market trends and standard trade practices in the US. With 37 companies representing virtually every aspect of the textile industry and trade from retail chain stores to manufacturers and agents, the committee is well-situated to perform a useful role.

But it needs help. Participation in a major effort by the Textile Committee to provide informational input to both sides of the textile negotiations is needed from all members of the National Council. The committee is try to arrive at a precise definition of the situation: the extent of US market penetration by PRC textiles; domestic producers affected; PRC capacity to expand textile exports to the US in the near and long term.

Other issues include the possible impact of a trade agreement and MFN on the textile trade; the potential impact of a rollback of PRC exports to the US on US cotton and synthetic fiber exports to China; and the optimum form of an orderly marketing arrangement in textiles.

Advice from non-Council members will also be welcomed. Interested parties should contact Robert Boulogne, Co-Chairman of the Textile Committee, at (212) 957-4321/6623, or Veronica Yhap, Co-Chairman of the Textile Committee, at (212) 289-2582.

PRESTIGE SCORES WITH BUYBACK

Trust—that was the key ingredient that went into the buyback agreement arranged last fall between Prestige Sportswear, Inc. of Boston and the Dalian branch of CHINATEX. The arrangement calls for Prestige to supply factories in Dalian with steaming and fusing equipment. In return, the Chinese will supply high quality women's garments to Prestige.

Veronica Yhap, president of Dragon Lady Traders, began the negotiations on behalf of Prestige on a visit to China in late August and early September of last year and completed them by November. Yhap believes that the negotiations benefitted from the good rapport she had built up with the Dalian branch of CHINATEX over the past six years.

According to Yhap, different branches of the same FTC in China may have entirely different negotiating styles, depending largely on the personalities of the local staff. Thus, in this particular case, the contract does not even contain provisions for arbitration though Yhap concedes that is also due to the relatively small amounts involved. She did not disclose the exact value of the machinery, but said, "This is really a testing situation. Less than $1 million in machinery is considered small."

Also contributing to the speed with which this deal was completed is the confidence that Prestige has in the capabilities of CHINATEX in Dalian. According to Yhap, the firm has been very satisfied with the garments produced by the branch, with most of the processing until now done by hand. The machines supplied by Prestige will enable the Chinese to process the garments more quickly and efficiently while maintaining the same high quality standards.

The equipment to be installed by Prestige at either three or four factories—the exact number had not been determined as of early January—consists of Kannegiesser continuous fusing machines and Cissell steaming system machinery. After installation is completed, probably by mid-February, the machines will be considered Chinese property, though the contract contains the standard provisions for Prestige to supply spare parts and servicing.

All garments produced by the factories within one year after the equipment is installed will be sold to Prestige at a discount as payback. The contract also gives Prestige an exclusive within the US after payback is completed. The garments will consist mainly of suits, jackets, pants, and skirts.

The contract does not specify the quantity of garments that the Chinese will sell to Prestige within the year after installation of the equipment is completed, though Yhap says, "We're buying much more than we're selling." The discrepancy in value thus made the negotiations somewhat easier because of the relatively low risk for Prestige.

What advice does the veteran China trader have for other companies considering buyback arrangements? "I would certainly recommend before you take such a step that you have some experience working with the branch or the corporation. A lot depends on trust."

China would provide building, roads, utilities, and labor and own a minimum 51 percent of operations. Foreigners would own 49% plus machinery and be repaid in goods, with opduction and technical design.

If the industrial park plan works out, it will probably be the most visible of a number of cooperation projects already underway in the city; in late November it was announced that factories in Beijing had signed agreements to produce more than 40 lines of foreign products, including cassette tapes, radio and digital clock sets, cameras, stereo radios, and much more.

Meanwhile, PRC media are highlighting the importance of reliability in contract performance in order to build up China's credit standing abroad. One of the major thrusts of a National Foreign Trade Work Conference in Beijing in November was criticism of plants which have been laggard in fulfilling export contracts. "As a result they not only earn less foreign exchange, but also affect the state's credit," foreign trade bureau directors charged.

Foreign importers are still experiencing sometimes calamitous delivery problems and failures to meet contract specifications which only concerted effort from the Chinese side can improve. In one recent clash, a US importer threatened to cancel orders for a whole line of sportswear because of problems with sizing, shrinkage, fixtures, and mysterious indigo spots that were apparently inflicted on the clothing in the factory. Problems such as these may ameliorate with the improvement of business communications with China in general (for example, prompt sending of countersamples on orders), but for the moment continue to remain an obstacle in the path of full development of China's exports.

ASP TRIPS UP PRC SHOE IMPORTS

In November 1978, a new ruling by the New York regional office of US Customs boosted the duties on imported Kung Fu shoes—a kind of plastic-soled, canvas leisure shoe of which China is one major supplier to the US. The regulation upped Customs charges for some buyers by as much as 400 percent.

The ruling came after a US company, Rubber Corporation of America, sought relief from imported products which, it claimed, were cutting directly into its market. If such a petition from an American company is approved, Customs may rule a duty based on the American Selling Price (ASP).

Duty is now being assessed on the company's whoesale price of $3.50 per pair for mens and ladies shoes and $3.25 per pair for childrens and infants sizes. Importers, some of whom have paid as little as 70¢ per pair after duty, now are paying two and three times as much on duty as the product costs them. Because China does not yet have Most-Favored-Nation (MFN) status, rates charged on PRC-made shoes are 35 percent compared to a 20 percent rate on shoes from exporting countries with MFN. Thus the ruling means double trouble for importers from China.

If the Shoe Fits, Why Not Wear It?

According to Customs official Eugene Koplik, no complaints have been lodged officially against the new regulation, which went into effect on November 13. But Koplik sees the thunderclouds massing on the horizon.

Importers are not convinced that the US-made version of the Kung Fu shoes meets the high standards of the Oriental models. Furthermore, buyers have alleged that US companies are charging lower prices than the ones used for establishing the ASP benchmark. Several footwear importing companies have warned Customs that they will make full use of opportunities under the law to seek waivers for their import lines and ultimately, repeal of the regulations.

One of the ironies of the situation is that the thin soled maryjane type shoe with cloth uppers made by Rubber Corporation of America is a direct copy of the Oriental original. Along with the success of the look-alike US product has gone the Chinese name, Kung Fu, which literally means "skill" or "labor." Quoted in *Footwear News*, one company official admitted to using the ASP legislation to gain leverage over competitors in a growing market. "The business in Kung Fu shoes has become so important that we're under pressure to be competitive," the official said. "We're using the government tools available to us to be competitive."

Paradoxical though it is, the more the US firm improves its copy, the better its claim to ASP-type relief.

ASP: Murky Origins, But an End in Sight

ASP itself is a protectionist device which was created in the 19th century. Besides footwear, it has few other applications. The stringent footwear clause was legislated in the 1930s, when popular feeling ran high against imported canvas shoes.

Bata, the largest shoe importing company in the US at the time, was brought to court by the domestic industry in US Rubber Corp. v. Bata (1933). Canvas shoes introduced to the US from Czechoslovakia were thought to endanger sales of domestic sneakers. Written into the Tariff Act of 1930 under Section 336, relief measures called for imposing the price norms of the US market on foreign sellers through the ASP mechanism.

Under ASP rules, all the US manufacturer has to prove is similarity of product in order to win protection. The protection comes in the form of an increased tariff burden on the importer; however, there is no guarantee that the final price of the imported shoes after tariffs will match US pricing levels or that US makers must conform to ASP prices themselves. ASP decisions are so open to abuse that even Customs officials are dissatisfied with them.

Within two or three years, says Myles Flynn, a Customs specialist on Section 336 of the Tariff Act, ASP will be a thing of the past. Currently underway is a review of a new value statute under GATT which will eliminate ASP. Along with the demotion of ASP will probably go legislation to revoke Section 336.

Relief Measures Available to Importers

Importers may seek relief from ASP decisions by presenting evidence that their product line is substantially different from US-made items in a request for "internal advice" from Customs. While lengthy, internal advice proceedings may be the best option available to many importers.

The New York office of Customs is functionally in charge of ASP decisions on footwear, and all correspondence on disputed decisions should be addressed to the Area Director at the US Customs House, 6 World Trade Center, New York, NY 10048. In requesting internal advice proceedings, reference should be made to Customs Regulation 152.24, Section C5. It is this section which sets out procedures for counteraction on footwear rulings.

If the Customs Office of Regulations and Rulings sustains the original finding, stage two for the importer is to seek recourse under Sections 514 and 515 of the Tariff Act. While most buyers are unwilling to undergo the expense and frustration of protracted litigation, such cases may be pursued in the Customs Court.

Chinese Reaction

With total exports of Kung Fu shoes to the US as of November 1978 ex-exceeding $2 million, FTC officials as well as their customers are unhappy about the new ruling. In a world export trade in footwear that reached only $65 million in 1977, the US is one of China's important markets. Recent changes in China's policy toward countertrade and export processing mean that China's importance as a market for US shoemaking machinery and footwear supplier to the US could grow.

Officials of INDUSTRY, the PRC trading corporation responsible for footwear trade, concur with the view of some US buyers that China's Kung Fu shoes are so different from the US imitations as to disqualify them from the ASP-based tariff rate. The style, type of rubber sole, and structure of the Chinese model is different from its US counterpart, according to Chinese foreign trade officials. The American product uses glue to fix soles to uppers, while the bottoms of Chinese shoes are handsewn.

The argument for the uniqueness of the Chinese product, however, can only go so far while US makers have an open field to study and perfect foreign models for their own use, under the aegis of the ASP statutes.

ITC CLOSES THE CASE ON CLOTHESPINS

Based on a recommendation submitted in early December by the International Trade Commission (ITC), President Carter has asked for an import ceiling of 2.0 million gross clothespins in 1979.

The recommendation was based on Section 201 of the Trade Act and calls for a restraint on imports from all sources. The Administration submitted its decision on February 8. The quotas will last for a period of three years.

A spokesman of the office of the Special Trade Representative describes the quota as "highly favorable" to the PRC. The system used calls for allocation of the quotas by value brackets—and China is one of only two countries selling pins in the lowest category.

The quotas, by category, are as follows: clothespins valued at under 80¢/gross—500,000 gross annually; clothespins valued from 80¢—$1.35—600,000 gross annually; from $1.35—$1.70—900,000 gross annually. Considering that few clothespins will be imported to the US in the upper bracket, China, together with Rumania, are likely to capture 45 percent of the US import market, compared to their record of 35 percent in 1977.

The quotas will be administered on a quarterly basis. 完

China Economic Notes

Briefly:

- ***Important CCP leadership meeting endorses modernization program***
- ***Modern management techniques urged, past failures rapped***
- ***Citizen's rights and property restored to ex-capitalists, landlords***
- ***State to pay 20% more for grain***
- ***Yangtze River to be diverted northward***
- ***Iron and steel production up significantly, but CIA report skeptical about chances for economic plan's success.***

GENERAL

Party Plenum Shifts Modernization into Second Gear

The Chinese Communist Party (CCP) hammered the final nail into the coffin of the Cultural Revolution and its legacy at an important leadership meeting in December. Declaring a formal end to the campaign to criticize the "gang of four" and Lin Biao, the Third Plenum of the Eleventh Central Committee resolved "to shift the emphasis of our party's work and the attention of the whole people of our country to socialist modernization." Endorsing private plots for commune members and a 20 percent hike in the grain price so as to improve the rural standard of living, the leadership spoke of the need to "overcome egalitarianism," thus dealing a sharp blow to one of Mao's most cherished tenets.

The Central Committee appointed four allies of Vice-Premier Deng Xiaoping to the Politburo, raising the total membership of the CCP's highest organ to 27. The new Politburo members are: Chen Yun, 73, a top economic planner during the early 1950s who disappeared from public view after he clashed with Mao over the Great Leap Forward; Hu Yaobang, 62, a Deng protege and former head of the Communist Youth League until his purge during the Cultural Revolution; Deng Yingchao, the widow of Zhou Enlai and a veteran party activist herself; and Wang Zhen, a vice-premier and China's staunchest advocate of purchasing the Harrier jumpjets from the UK. Chen was also named a vice-chairman of the Politburo and now ranks fifth in the hierarchy behind Hua Guofeng, Ye Jianying, Deng, and Li Xiannian.

The Central Committee added nine new members, including Wang Renzhung, who was subsequently named a vice-premier at a special session of the National People's Congress Standing Committee. Other new members of the Central Committee include Hu Jiaomu, president of the Chinese Academy of Sciences, and Sung Renjiong, minister of the Seventh Ministry of Machine Building. Sung apparently will relinquish that post to devote full time to his new job as head of the party's Organization Department.

To nurture the development of new ways of thinking, the Central Committee called for "emancipating minds" and adopting the principle that "practice is the sole criterion for testing truth."

Although Western-style democracy certainly does not appear to be on the Chinese horizon, the communique issued by the Central Committee at the session's end indicated that China may seek to establish a limited form of democracy, perhaps along the lines of the Yugoslav model, once condemned but now praised. Since the CCP had, for a period in the past, failed to carry out democratic centralism "in the true sense" because there was "too little democracy," the communique stated that "it is necessary to lay particular emphasis on democracy at present."

LEGAL SYSTEM TO BE REVISED, COMMERCIAL CODE PLANNED, MORE CHINESE LAW EXPERTS

"In order to safeguard people's democracy, it is imperative to strengthen the socialist legal system . . . There must be laws for people to follow, these laws must be observed, their enforcement must be strict, and law breakers must be dealt with," the communique observed. It also stated that procuratorial and judicial organizations must maintain their independence "as is appropriate."

The discussion on reforming the legal system was continued in a series of articles in *People's Daily* in January. "The courts must certainly work under the unified leadership of the local party committees," one article stated. "But what is correct party leadership for the courts?" The writer argued that the party's role should be confined to selecting judges, policemen, and prosecutors, and insuring that they are properly educated.

This question, and many others, may be answered by the new criminal and commercial codes that China is now drafting and hopes to complete by the end of 1979. In order to facilitate the PRC's industrial modernization program, the new commercial code will contain provisions for protecting patent rights, foreign investment, and joint ventures. The Chinese are also considering codified provisions for third-party, neutral arbitration in disputes between foreign companies and Chinese entities.

The new criminal code will also pay more attention to economic offenses such as corruption and embezzlement. But the primary emphasis will be on protecting individuals from arbitrary official action. Officials who participate in frame-ups, forced confessions, or illegal house searches will be punished.

One step the Chinese have already taken to improve their system of justice is the re-creation of the procuratorate, whose function is to insure that there is sufficient evidence before a person is formally arrested or brought to trial. The 1978 State Constitution restored the defendant's right to a defense and a public trial.

The Chinese are planning to substantially increase the number of lawyers. Professor Shen Chung-lin of the Law Department of Peking University, one of China's few law schools, told *New York Times* correspondent Fox Butterfield in January that Peking University had graduated only 1,000 law students since 1949.

CHINA'S MANAGEMENT REVOLUTION CONTINUED

The Central Committee issued a ringing endorsement of decentralization during its December plenum that is of interest to all foreign companies considering joint-venture investments in the PRC. The communique described the "over-concentration of authority" as one of China's serious management problems and urged a shift in economic decision-making authority to local authorities and industrial and agricultural enterprises.

The communique also heralded what could be a significant transformation in China's economic structure by stating that "big efforts should be made to simplify bodies at various levels charged with economic administration and transfer most of their functions to such enterprises as specialized companies or complexes."

Perhaps more importantly, the communique said it is necessary "to tackle conscientiously the failure to make a distinction between the party, the government, and the enterprise and to put a stop to the substitution of party for government and the substitution of government for enterprise administration, reduce the number of meetings and amount of paper work, and conscientiously adopt the practices of examination, reward and punishment, promotion and demotion."

Both Vice Premier Kang Shien (Kang Shih-en) and Light Industry Vice Minister Song Jiwen (Sung Chi-wen) subsequently spoke of the need to shift from an administrative management system which takes no account of economic results or work efficiency to what Kang described as "the scientific method of management" and Song called "economic organization management." Kang spoke of the need to apply the law of value and to "strictly enforce the system of economic accounting and of economic responsibilities." He said industry should be reorganized in accordance with the principle of specialization.

EMPHASIS ON ENTERPRISES

Minister Song, interviewed by *Liberation Daily* immediately after a visit to Japan, said Japanese businessmen who had visited China told him that Chinese enterprise managers and plant directors do not have clearly defined powers and that it is hard to determine who is actually the manager in a Chinese plant, whereas subordinates in Japan have a free hand. The Japanese told him that production could rise 50 percent if existing installations were well-managed. They also said that importing industrial plant would not result in good products if the Chinese failed to adopt scientific management. They urged China to set up organizations for promoting quality control, standard terminology, and criteria.

Song urged the study of capitalist enterprise management, whose major task he defined as the rational organization of the productive forces. He also said production should be organized among specialized departments and made an implicit call for adopting economies of scale.

Echoing the call for managerial reform, the *Guangming Daily* stated: "The most important thing at present is increasing the autonomy of factories, farms, and other enterprises so that every factory and production team, can, by hook or by crook, give play to its spirit of initiative and creativity . . . The kind of management mentality that regards the enterprise as an appendage of any administrative organ or as a bead on an abacus that can only be moved at the external com-

CIA EXPRESSES DOUBT ABOUT PRC MODERNIZATION BID

A new report issued by the CIA's National Foreign Assessment Center in December expresses doubt about the PRC leadership's ability to fulfill planned targets but says the plan is "likely to be a successful first step toward the modernization of China's economy."

The report states that, while the pragmatic thrust of the new leadership has freed it of the ideological restraints that previously limited Peking's economic options, the anti-"gang of four" sentiments that has motivated a "let's get on with it" consensus thus far will inevitably weaken as a source of cohesion, thus forcing Beijing to make adjustments along the way.

The report states—

". . . Were China able to sustain its historical growth rate of about 6 percent annually, by the year 2000 its GNP would still be 15 percent below what US GNP was in 1975. And with a population that is likely to approach 1.5 billion by the end of the century, China's per capita GNP would be less than $1,000, about equal to that of Brazil at present."

The NFAC is skeptical about Peking's prospects for increasing grain production to 400 million tons annually by 1985 (compared to 285 million in 1977), noting that the average annual growth between 1970 and 1977 was only an estimated 3.6 percent, whereas a rate of 4.3 percent will be necessary to achieve the 1985 target. The report commends the Chinese, however, for their efforts to mechanize agriculture and increase chemical fertilizer production.

In other areas, the report states that it will be difficult to achieve the doubling of coal production to one billion tons annually by 1985, expresses doubts about China's ability to achieve desired increases in petroleum production and exports, and forecasts that China will have difficulty keeping power production in line with increases in demand, despite the 30 new power plants envisioned.

The report approves Beijing's efforts to achieve management reform and improve the quality of manufactured goods, and states that improvements in the living standards of workers will be crucial to the achievement of higher worker productivity. But that will be difficult. "Beyond 1980 and until the current investment program is completed, more than moderate gains in consumption seem unlikely."

The study also casts doubt on the PRC's plan to increase light industrial output by 150 percent over the eight-year period, noting that the CIA has estimated average annual growth in China's light industrial production from 1957 to 1977 at 7-8 percent, far short of the target rate.

Despite the reservations that appear throughout the report, it concludes that "Peking seems capable of resolving these difficulties in ways that will allow satisfactory gains in per capita consumption and, at the same time, permit rates of investment and industrial growth that are reasonably close to plan goals."

CHINA'S MANAGEMENT REFORM

The Ministry of Petroleum Industry and the Guangdong Electric Power Bureau have provided two specific examples of management reform. The ministry specified the responsibilities of the top three individuals within leading groups of various enterprises as follows: the No. 1 man must take personal part in promoting production and technical innovation. The No. 2 man or factory director must concentrate his efforts on managing production and applying technology well, while the No. 3 man or chief engineer should devote his full attention to technical production matters. The ministry urged reductions in the number of meetings, political classes, and overtime hours so that workers will be able to spend four evenings every week studying technology.

In addition, the ministry urged the adoption of modern management techniques, a shift from the manual operation of obsolete equipment to the promotion of large-scale technical innovation, the application of mechanization and automation, the import of advanced foreign technology, and the utilization of foreign capital and resources. It also said that living conditions of workers should be "improved considerably" in the next three to five years.

The Guangdong Provincial Electric Power Bureau adopted the large work contract method (*CBR* 5:6, p. 51) to build a 220 kilovolt electric power supply line stretching 75 km from Maoming to Zhanjiang, thereby reducing the cost of the project by 3.3 percent, while at the same time achieving 100 percent quality and sustaining no injuries to personnel, according to provincial radio broadcasts.

In carrying out the project, the electric power supply engineering section of the bureau took itself as the basic accounting unit, adopted technical standards and specifications set by the central government, and contracted for four things: the total investment, the quality and scale of the project, and various related tasks that the radio report did not specify. Revenue saved during the construction period was set aside as welfare funds for the staff and workers.

mand of the upper level is incompatible with the needs of realizing the four modernizations."

The article asserted that giving enterprises autonomy would enable them to strictly enforce economic accounting, reduce economic losses, increase productivity and profitability, and improve economic results. It went on to state that, after acquiring management autonomy, workers and cadres "will not be able to sleep and will cudgel their brains if there is a small plot of land which is not planted."

MATERIALISM SANCTIONED

In one of the more blatant calls for material incentives, the same article stated, "Revolution is built on the basis of material interests. If we only talk about the spirit of sacrifice and not material interests, that is idealism." It blamed Lin Biao and the "gang of four" for advocating the line that "spirit determines everything," which it said "pushed our national economy to the brink of collapse." The article also put in a plea for worker democracy, saying that work can be done well only if it has the full enthusiasm of the workers and peasants, but acknowledged that "at present, the masses of workers and commune members have very little say" in planning and management.

People's Daily weighed in with a New Year's Day editorial supporting worker democracy and management reform. The editorial stated that enterprises should have expanded control over planning, assets, the pay system, and foreign trade. The editorial said the state role should be confined to setting "a few important quotas," while the enterprises themselves would be given the right to work out their actual production plans based on market needs and supplies of raw materials. The state would then ratify the enterprise plan. Funds, equipment, products, and personnel of the enterprises would be protected from arbitrary transfers, and the enterprise could also raise workers' pay, within limits.

The editorial said the old management system hamstrings initiative, with power vested in administrative offices far from the production points. Another article noted that it would be impossible for local jurisdictions to solve any problems if they simply act as message centers for directives from central authorities.

NO LAUGHING MATTER—CHINA'S MANAGEMENT FAILURES

The press has also poured forth a great number of articles in recent months citing specific examples of management failures, including a coal mine in Shaanxi (Shensi) Province supplying a power station next door but which had to ship the coal 10 miles just to get it to the station. Another article criticized the "blind production" of lathes, reporting that the state had planned to produce 60,000 lathes in 1977, but that the total almost reached 200,000, or 2.7 times the target. The 1978 target, it went on, was 42 percent overfulfilled by August, thus wasting large amounts of raw materials and fuel.

Another article reports that metallurgical enterprise managers complained at a recent conference that they have to deal with too many bosses—the Metallurgical Industry Ministry, the provincial and municipal Party committees, the provincial and municipal planning and capital construction committees, the industrial communications offices, and the provincial and municipal metallurgical bureaus. "To get anything done, all bosses must be consulted. Such a system of control curbs productivity," the article stated.

Further complicating such bureaucratic logjams is the fact that party cadres who have no technical expertise often make key decisions about management of individual factories or enterprises. Backing up the Central Committee's decision to separate the functions of party, government, and enterprise management, a Guangdong paper blasted cadres who have no technical expertise in an article titled "Don't Be

Emptyheaded Revolutionaries." The Baoding Woolen Textile Mill in Hebei Province was criticized for using deceit to win the title of "Taching type enterprise"—the highest honor an industrial enterprise can receive.

FOREIGN MANAGEMENT EXPERT HIRED

Moving beyond simple exhortations to learn modern management techniques, China has launched a pilot project at the Institute of Mechanical Engineering in Shanghai to teach modern management techniques. The Institute, which is administered by the First Ministry of Machine Building, has hired a Canadian expert, Joseph Battat, to advise the Chinese on the project. The aim is to train administrators, engineers, and teachers in management science. More than 20 institutions from across the country have sent instructors or trainees to take part in the project, which is considered a model for other educational facilities. The institute had previously concentrated solely on technical subjects such as mechanical and electrical engineering. The Chinese press also reports that the First Ministry of Machine Building has been holding quality control classes in cities across the country since last July.

Meanwhile, two new magazines are attempting to make the Chinese more aware of international business and modern management techniques. The magazines, both monthlies published in January for the first time, are called *World Economy* and *Economic Management*. The lead article in the former was entitled "Learn from Other Countries to Speed China's Four Modernizations." The second magazine is published jointly by the Chinese Academy of Social Sciences, the Economics Institute under the State Planning Commission, the Foreign Economic Management Institute of the Chinese People's University, and *Guangming Daily*.

REHABILITATION FOR BUSINESSMEN, EX-LANDLORDS

In late January NCNA announced that property taken from former capitalists during the Cultural Revolution would be returned to them and that "citizen's rights" would be restored to former landowners.

Politburo member Ulanfu told 200 former industrialists at a meeting in Beijing that assets and bank deposits which they had been allowed to keep during the first 17 years of Communist rule but which were confiscated during the Cultural Revolution would be returned, with interest. He also said their professional titles, such as engineer or counsellor, would be restored, that their children would no longer suffer discrimination in jobs and schools, and that they could return to private homes requisitioned since 1966.

Rights were also restored to wealthy villagers and others who had been labeled "counter-revolutionaries and bad elements." The Central Committee decided to end such discrimination because most of the rural gentry has "undergone remolding through manual labor for two or three decades." Those who "have not engaged in misdeeds" will be treated as equal members of rural communes, where lists of those persons who have been remodeled are to be posted. Children of former landlords and rich peasants are to receive equal opportunities. In a related development, the Ministry of Public Security has ordered that "all wrong verdicts are to be corrected even when the person involved has died."

AGRICULTURE—GRAIN PURCHASE PRICES HIKED, FARM INPUT PRICES TO BE CUT

The December plenum of the CCP Central Committee devoted considerable attention to agriculture, stating that the party should concentrate its efforts on advancing agriculture as fast as possible because it is the foundation of the economy, but has suffered severe damage in recent years and remains weak.

Policies adopted by the plenum include: protection by the state of ownership rights and decision-making powers for the communes, production brigades, and production teams; prohibition against commandeering the manpower, funds, products, and material of any production team; and a recommendation that payment should be made in accordance with the amount and quality of work done.

The plenum's communique described small plots of land for private use by commune members, domestic side-occupations, and village fairs as "necessary adjuncts of the socialist economy" which must not be interfered with. It said the communes should implement the system of three levels of ownership (commune, brigade, and production team) with the latter as the basic accounting unit and urged the communes to carry out democratic management election of cadres, and public dissemination of accounting records.

The communique stated that "for a fairly long period to come, the national figures for the agricultural tax and the state purchase of grain will continue to be based on the 1971-1975 quotas."

In a bid to garner peasant support for the modernization program, the plenum recommended a 20 percent hike in the grain price beginning this summer and an additional 30 percent hike for any amount purchased by the state above the quota. Price increases were also recommended for cotton,

USDA ESTIMATES OF CHINESE AGRICULTURAL OUTPUT, 1977 AND 1978

	1977	1978
	Million tons	
Total grain	279.5	289.5
Rice	126.5	127.5
Wheat	40.5	44.0
Coarse grains	68.4	70.5
Corn	34.4	36.0
Other miscellaneous grain:	8.1	9.0
Tubers	26.5	28.0
Soybeans	9.5	10.5
Cotton	2.0	2.1
Rapeseed	1.025	1.485

Source: USDA

Ron David: News Photo

John Denver and Li May Phipps at the Council's Gala, January 29

edible oil, sugar, animal by products, aquatic and forestry products.

Banking on increased management efficiency in industry, the communique stated that prices for farm machinery, chemical fertilizer, insecticides, plastics, and other manufactured goods for farm use will be cut by 10-15 percent in 1979-80. Despite the rise in the purchase price for farm produce, the communique stated that the market price in the cities for all food grain will remain unchanged, with the selling price of other farm products to be kept stable also. And if some prices have to be raised, appropriate subsidies will be offered to consumers.

The Central Committee's agenda also included agricultural science education, regional programs for agricultural development, forestry and animal husbandry, the establishment of modern centers for farming, forestry, fishing, and livestock-breeding, and the active expansion of rural industry and side-occupations run by the communes and production brigades.

NEW VICE PREMIER WILL DIRECT AGRICULTURE

The Central Committee meeting also produced some heated criticism of Politburo member and Vice-Premier Ji Dengkui for a report in which he praised China's record in feeding nearly one quarter of the world's population on only five percent of the globe's arable land. "You said fertilizer output increased 19 times since liberation (in 1949) . . . and that power supplied to rural areas increased 157.5 times, yet production has only increased one and one-half times since liberation, so what is there to be praised?" one leading party official asked.

Chen Yonggui, the peasant from Dazhai (Tachai) production brigade who rose to become a vice-premier and Politburo member, has had to admit that Dazhai's record really hasn't been all that great. Wang Renzhong, a new vice premier, will supersede Ji and Chen in directing agricultural development.

CHINA'S AGRICULTURE OUTPUT IN 1978

Wang will have some difficult tasks ahead of him in the immediate future. Chinese sources announced in December that total 1978 grain production (including soybeans) amounted to roughly 295 million tons, a 10-million-ton increase over 1977 production and a new record. The report also stated that the output of cotton, oil-bearing crops, sugarcane and sugarbeets, jute, ambary, silkworm cocoons, tea, cured tobacco, and the number of pigs was larger than in 1977. However, increases in most crops were reported small, and state plans were not met in some areas, including grain, where the Chinese had hoped to register a 15-million ton increase over 1977. A report by USDA casts doubt on China's claim for a 295-million ton harvest, holding instead that the figure was probably more like 290 million.

The 1978 performance thus represents a severe blow to China's ambitious plan to increase grain production to 400 million tons a year by 1985. To accomplish that, average annual increases will have to be 4 to 5 percent, in contrast to the 1978 increase of 3.5 percent if one accepts the PRC's claim to a 10 million ton gain and only 1.8 percent if one goes by the USDA estimate.

Agriculture was hampered in 1978 by serious drought conditions, although Jiangsu (Kiangsu) Province reported a bumper harvest despite what *People's Daily* termed "extraordinary drought." Precipitation in December was below normal throughout the winter crop area, thus making this year's early harvest of winter-sown crops and early rice unusually dependent on favorable spring rainfall. The US agricultural attache in Hong Kong has estimated that the 1978-79 winter wheat harvests will be only 82.6 percent of the average 1975-78 production level. Areas that appeared in late 1978 to be particularly hard-hit by the drought include Henan (Honan), Shanxi (Shansi), Anhui (Anhwei), and Yunnan.

Continuing drought could have serious implications for industry as well as agriculture. A December 29 Yunnan radio broadcast stated that "if there is a conflict between water and electricity supply for industrial use and water and electricity supply for combatting drought in the rural areas, it is imperative . . . to give preferential treatment to meeting the urgent needs of combatting drought."

Factors contributing to the relative success achieved by Chinese agriculture in 1978 include a 10-million-ton increase in chemical fertilizer production, 400,000 more tractors produced than in 1977, and increases in electrical and mechanical power and the irrigated areas. Nonetheless, the Chinese have told recent visitors that they plan to import some 10 million tons of grain annually in the next few years. Total 1978 grain imports were 9.5 million tons. China is believed to have about 40 million tons of grain in storage.

FARM MECHANIZATION PACE SLOWED

In a significant break with recent policy, China has abandoned its efforts to mechanize all grain production by 1980. The policy shift, announced in a *People's Daily* editorial on February 6, stated that China would instead concentrate on "building modern mechanized production bases in crop farming, forestry, animal husbandry, and fisheries." Farm communities outside the pilot areas may continue to mechanize their work, but "according to local conditions and in the spirit of self-reliance, efforts must be made to obtain greater and quicker results with less money."

The editorial also reported that the government will give increased aid to peasants who have recently been complaining about hunger and their low incomes.

IRRIGATION PLANS—DIVERTING THE YANGTZE NORTHWARD

China plans a massive engineering project to divert the Changjiang (Yangtze) River northward in an effort to increase the production of wheat, cotton, and corn in the Yellow Plains around Beijing, which perenially suffer from a shortage of water. Huang Pingwei, director of the Institute of Geography, outlined the plans recently to a group of American scientists.

Plans for the project, which would take at least a decade to complete, are not yet final, but the Chinese would apparently divert the water alongside of or through the Grand Canal, which has carried boat traffic since the 7th century. The Grand Canal, second only to the Great Wall in the history of Chinese construction projects, extends north and south for more than 600 miles before reaching the Beijing area and then continues for another 200 miles. The Yellow Plains, which surround Beijing for hundreds of miles, are short of water because of increasing erosion along the banks of the Yellow River, filling the riverbed with sediment that has lowered the water level. New irrigation is badly needed in the Yellow Plains if China is to reach its goals for increasing grain output.

The Yangtze project is not the only irrigation project the Chinese have in mind. In Tibet, work has already begun on the Nienchu River, which will hopefully turn more than 100,000 mou (10,000 hectares) of wasteland into fertile fields. China has found 30 to 40 methods for protecting cement irrigation works from frost damage, according to an NCNA report.

HOW TO KEEP 'EM DOWN ON THE COMMUNE

If and when China does succeed in carrying out its plans for mechanizing agriculture, there could be a gigantic problem in finding employment for all those peasants displaced by machines, especially since there just isn't room for many more people in China's crowded cities. A hint as to how the Chinese may cope with that dilemma appeared in a December 31 NCNA dispatch reporting that factories run by communes outside Beijing beginning this year will turn out hundreds of items that used to be produced by state-owned factories, which in turn will concentrate on more sophisticated products. The report cites a wrist watch factory started in 1975 with the help of a Beijing plant as an example.

The Chinese press has supported the move to develop industry in the countryside with editorials stating that the traditional division of labor between the cities and the countryside is a legacy of the past that "can no longer meet the needs in developing production. Moreover, it has resulted in a considerable waste of social wealth."

Other steps urged by the press to improve agriculture and the life of the peasants include a flexible approach to the principle "taking grain as the key link and ensuring an all-round development," with each area concentrating on the crops to which it is best-suited, rather than the entire country concentrating on grain. Mountainous areas, for example, were urged to focus their energies on forestry. Banks have been encouraged to take a flexible approach to collecting debts from peasants and production teams. Editorials have called it unrealistic to ask peasants to pay off longstanding debts with the income from one bumper harvest.

MARKETING VEGETABLES THE YUGOSLAV WAY

The Yugoslav model is receiving growing attention in the Chinese press. One article from Xinjiang (Sinkiang) reports that Chairman Hua Guofeng has urged a regimental farm there to follow the example of the Belgrade Agricultural Complex in combining agriculture and industry, while another article reports that an official at the Chinese Embassy in Belgrade has urged study of the Yugoslav system in which vegetables are supplied directly to the cities by agricultural combines with supplements from individual peasants. The article goes on to extol an experiment in China of direct marketing of vegetables to the cities.

"Since direct sales give the vegetable growers full profits, they will be encouraged to reduce waste in production and in the transport and handling of their products. There will be more fresh vegetables for cities when the intermediate link between the producer and the consumer is eliminated," the article states. The report recommends that the existing vegetable companies concentrate on helping the communes and their subdivisions arrange production and sales while respecting their right to make the decisions. The companies would also advise the communes on market demands for quantity and variety of vegetables.

In an effort to make farming more scientific, Chinese leaders have been urging greater attention to soil survey work, failure to do so evidently being responsible for past failures. "Some comrades pay attention only to grasping agricultural output but attach no importance of soil survey," one article stated. "They know nothing about soil conditions and cannot make improvements, dress fertilizer, or carry out cultivation and management in a manner suitable to the soil."

FORESTRY—THE "GREAT GREEN WALL"

Forestry is another area receiving increased attention these days. One problem has been the destruction of forests to increase grain production areas, thus threatening the ecological balance in areas such as Sichuàn's Chengdu Plains. A biological researcher reported that the felling of large number of trees on the upper reaches of the Min River could affect the river itself unless the situation is soon rectified, thus causing the plain itself to become a desert.

Also in Sichuan (Szechuan), the State Bureau of Forestry recently sponsored a conference on aerial afforestation, which reportedly succeeded in creating vast timber bases in four southern provinces over the past 20 years. The total affected area is reportedly 11 million hectares, of which up to 4.2 million hectares of saplings have survived.

NCNA disclosed in early January that China is planning to grow a "great green wall" of trees stretching several

Secretarial Services at the Peking Hotel: Margaret Sullivan from Hong Kong was first to provide them, in late 1978 for Bethlehem Steel, then others

thousand miles along the edge of its deserts and highlands in order to protect 32 million acres of farmland and transform vast areas of barren land into grain-producing and animal-breeding regions.

Justly famous for its successful experiences in oil production, Taching oilfield also reaped a record agricultural harvest in 1978. The total output of grain and legume crops exceeded 80 million catties and the average per-mou yield was up 49 percent over the previous record. The 1978 success was attributed to farmland capital construction work in late 1977, including the construction of ditches, reservoirs, and pump wells.

PRODUCTION FIGURES DISCLOSED—STEEL UP 29%, ELECTRICITY 14%

Chinese steel production increased by 29 percent last year over 1977, rising from 24 million to 31 million tons, according to a mid-December speech by Chairman Hua. Iron production rose 36 percent, from 25 million tons in 1977 to 34 million last year. Thus, if China is able to continue these high growth rates over the next seven years, it will be able to reach its goal of 60 millions tons of steel annually by 1985.

Other figures announced by Hua include the addition in 1978 of four million kw of electric generating capacity, representing about a 10 percent increase over 1977. Electric power output was up by 14 percent, while 1,650 oil wells began producing oil in 1978, more than double the number put into operation in 1977. Hua said several new oil pipelines were laid in 1978, and observers estimated China's national capacity at two million barrels a day. Hua said "dozens" of new coal pits were dug, of which 10 may have annual output between 450,000 and 1.2 million tons. Total coal output was expected to reach a record 600 millions tons, compared to the target of 550 million tons and an estimated 500 million produced in 1977. The mileage of railway track laid was up 40 percent over 1977, while new urban housing construction increased 17 percent. Total figures for these categories were not released.

The value of textile production was up by 16 percent over 1977, which in turn was 17 percent above the 1976 figure. State targets were reportedly met 20 to 86 days ahead of schedule for cotton yarn and cloth, chemical fibers, silks, woolen piece goods, and 10 other major products.

OIL OUTPUT RISES 11.1%

The total output of crude oil in 1978 increased by 11.1 percent and natural gas 10 percent compared to 1977; both surpassed the state targets for the year. The output of refined oil rose 8.3 percent, of which gasoline, kerosene, diesel oil, and lubricating oil rose by 12.5 percent.

The machine building industry fulfilled the 1978 state production plans "for a number of major products" more than to a month ahead of schedule, according to NCNA. Machines included in this category were tractors, internal combustion engines, machine-drawn planters, motor vehicles, a.c. and d.c. motors, transformers, power cables, gas compressors, and diesel power generating units. The report stated that the First Ministry of Machine Building had supplied 97 percent of the equipment required by the coal industry for 1978 by the end of November, along with 108 of the 110 oil drilling machines required by the petroleum industry.

On December 5, NCNA announced that China had already fulfilled production targets for 14 major building materials, including cement, plate glass, and asbestos. Eleven products increased output by more than 15 percent. The cement industry topped the 54 million ton target 49 days ahead of time, with a 20 percent increase over 1977.

It was a very good year for the chemical industry with the annual production quotas for 16 major chemical products achieved by December 12. The chemical fertilizer production plan of 44 million tons was reached by November 28, with total production for the year expected to reach 48 million tons. Insecticides and caustic soda production, which had failed to meet the state plan from 1974 to 1976, reached the 1978 targets 63 and 45 days ahead of schedule, respectively. China's imported synthetic ammonia plants achieved a good measure of success, too. Of the seven plants that were in production last year, three, in Daqing, Sichuan and Shengli, had reached or surpassed their expected annual capacity of 300,000 tons by December 4.

Reflecting China's economic activity and foreign trade in 1978, NCNA reported in December that the amount of freight transported by water increased by 15.6 percent over the same period for 1977, while port loading capacity rose 15.5 percent. China's ocean fleet exceeded its annual cargo plan 9.6 percent by November 30. By the end of October, the expanded fleet had visited more than 400 ports in 98 countries and regions. China had met its 1978 foreign trade plan for 1978 by the end of November, by which time total foreign trade was already 20 percent above all of 1977.

RESOURCES—MINERAL AND METALS

Large new reserves of copper, bituminous shale, and bauxite have been reported recently. Verified deposits at Dexing County in northeast Jiangxi Province thus far indicate more than eight million tons. Six years of testing in Guangxi have resulted in the discovery of China's largest high-grade bauxite deposit. Although NCNA did not indicate the extent of the reserves, it did say they were sufficient to warrant the establishment of a large mining and refinery industry. The ores contain an average of 59.9 percent alumina as well as a variety of recoverable rare elements. The bauxite deposits are covered by only half a meter of earth and rock and will be extracted by open-cut methods. A major river, the Yu, runs through the deposits and will provide transport for the ore.

Recent surveys have found that China has more than 100 billion tons of bituminous shale, scattered over some 200 counties and covering an area of 400,000 square kilometers. NCNA said most of the reserves are in southern China. Seams in most places are thick and exposed, thus easy to excavate.

A *People's Daily* editorial recently urged more effective utilization of another valuable resource—scrap iron and steel. The editorial said China recovered 115 million tons of scrap between 1970 and 1978, of which 80 million tons (equal to 70 million tons of pig iron) were used in steel refining. The remainder was used to produce small and medium-sized farm implements and small hardware as well as for maintenance and foundry purposes.

INFRASTRUCTURE—HYDROPOWER

A recent NCNA release gave extensive details regarding a multi-purpose hydro project, consisting of a 2.56 km dam and two hydroelectric power plants with a combined capacity of 2.7 million kw, that is under construction in the middle reaches of the Yangtze River. Described as the largest hydro-engineering works ever to be built in China, the project marks the first major step to harness China's biggest river and utilize its immense resources. The two power stations will supply 13.8 billion kwh annually to Hubei (Hupei) and three adjacent provinces.

The Gezhouba project is located in Yichang in Hubei, just below the point where the Yangtze emerges from three narrow gorges into its wider middle reaches. Other major items scheduled for construction at the site include a flood discharge gate, shipping locks and silt discharge gate. The 70-meter high dam will back up 1.5 billion cubic meters of water. The artificial lake formed will extend for more than 100 km upstream, thus facilitating navigation in the three gorges. The water discharge gate in the middle sector of the dam will be able to handle a flow of up to 110,000 cm per second, while the shipping locks are capable of accommodating ships up to "several thousand tons."

The silt discharge gates will be able to prevent large amounts of silt from being deposited on the river bed, which would affect both navigation and power generation. Although the Yangtze has a relatively low silt content of 1.19 kg per cm, some 500 million tons of silt are carried down the middle stretches of the river each year due to tremendous volume of its annual flow. Work on the project began in late December 1970 but was suspended from November 1972 to October 1974 because of technical snags. The report gave no indication as to when the project will be completed.

In other power developments, the eighth and last generator has been installed and put into operation at the Chingtung Gorge Power station on the Yellow River in the Ningxia Hui Autonomous Region. The eight turbo-generators have a combined capacity of 272,000 kw. The Chingtung Gorge station, begun in 1958, is one of six large hydro-electric power stations that have been completed and put into operation on the Yellow River since 1949. Another is still under construction.

NCNA reports that installation of a 165 km, 220 kv power line across the Huaibei Plain in Anhui Province will be completed by May 1, while the Bei-

RMB: DOLLAR RATES AS OF FEBRUARY 1979

Date		RMB/US$	US¢/RMB	RMB/US$ % Change
Nov. 3	Bid	1.6443	60.8162	
	Offer	1.6361	61.1210	
	Median	1.6402	60.9652	+2.50
Nov. 9	Bid	1.6345	61.1808	
	Offer	1.6263	61.4893	
	Median	1.6304	61.3346	−0.60
Nov. 17	Bid	1.6410	60.9385	
	Offer	1.6328	61.2445	
	Median	1.6369	61.0911	+0.40
Nov. 18	Bid	1.6475	60.6980	
	Offer	1.6393	61.0016	
	Median	1.6434	60.8495	+0.40
Nov. 24	Bid	1.6409	60.9422	
	Offer	1.6327	61.2482	
	Median	1.6368	61.0948	−0.40
Dec. 30	Bid	1.5810	63.2511	
	Offer	1.5732	63.5647	
	Median	1.5771	63.4075	−3.65
Jan. 5	Bid	1.5858	63.0597	
	Offer	1.5778	63.3794	
	Median	1.5818	63.2191	+0.30
Jan. 19	Bid	1.5857	63.0636	
	Offer	1.5777	63.3834	
	Median	1.5817	63.2231	0.00
Feb. 8	Bid	1.5729	63.5768	
	Offer	1.5651	63.8937	
	Median	1.5690	63.7349	−0.80

jing Tianjin-Tangshan power network has recently introduced an electronic computer to its operations. The computer was built by the Beijing Electric Power Administrative Bureau.

The largest bridge in the Guangxi Zhuang Autonomous Region was completed and opened to traffic last October. The bridge is 380 meters long, 10 meters wide, and 40 meters high. It crosses the Hungshui River, a tributary of the Pearl River.

RAILWAY CONFERENCES PONDER FUTURE

Japanese technical experts have been providing assistance since mid-1978 on the transformation of three major rail lines into high-speed corridors, although no contract for the deal had been signed as of mid-January. The three lines affected are Beijing-Tianjin-Shanghai (700 miles); Beijing-Zhengzhou-Wuchang (750 miles) and Beijing-Harbin (850 miles). The plans call for 100 mph runs within three years and increases to 135 mph as soon as possible after that. The highest speed now attained on China's railways is reportedly 69 mph.

A ceremony marking the completion of the new 885-km north-south railway from Zhizheng in Hubei Province to Liuzhou in Guangxi was held in Huaihua City, Hunan Province on December 26. Two trains carrying 700 passengers each left Huaihua at 1:30 p.m. that afternoon, one going north, the other south. The new line will run parallel to the Beijing-Guangzhou Railway when it extends north to Taiyuan in Shanxi Province.

At a recent conference of the Chinese Railway Society it was announced that Li Wen-i will chair a newly-formed 31-member committee on railway electrification. At another conference, representatives from 70 units across the country heard from officials who took part in the fall 1978 locomotive missions to the US, West Germany, Sweden, and Romania.

CHINESE FLEET TO KEEP GROWING

The dramatic expansion of China's merchant shipping fleet is expected to continue in 1979, according to the *Journal of Commerce*. In an 18-month spending spree that ended in September 1978, China spent an estimated $460 million on 120 ships totalling 2.35 million dwt. The fleet now totals over 6 million dwt but should reach 20 million dwt by 1980, the paper stated. China is expected to be in the market for 100,000 dwt oil tankers when its oil exports reach 9-10 million tons a year and when its seaports have been modernized and deepened.

Illustrative of the growth in China's shipping capacity is a recent NCNA report stating that 10 berths for 10,000-ton class freighters and three for 5,000-ton class freighters were completed and put into use at the ports of Shanghai, Huangpu, Chanchiang, Tianjin, and Nanjing in 1978. In addition, the Chinese are now using interlocking modular barge systems on major inland rivers, thus reducing costs by 10-30 percent and increasing navigation speed by 15-20 percent, compared to conventional towing methods. Over 50 barges each having a loading capacity of 1,000 tons were built in 1978.

The pushing method is expected to be generally adopted on China's inland waterways by 1985. The new system should be particularly welcome along the Changjiang (Yangtze) River, which had carried 39 million tons of freight by November 23, more than 10 million tons over the previous record in 1977.

In other shipping news, the first Chinese-built medium crane ship with a long jib is now in operation at Shanghai Port. In the past, Chinese crane ships could not handle large or heavy freight because of the short jib of the crane. The new ship draws 32 tons and can move a 15-ton load from a freighter that is 30 meters across the beam to a nearby wharf.

Leonard Bernstein conducts Marine Band at Council's Kennedy Center Gala, January 29

BAOSHAN PREPARATIONS NEARLY COMPLETE

Preparations for the giant integrated steel mill at Baoshan are nearly complete, NCNA announced in late December. Main roads leading to the building site have been laid, high tension lines put up, and water supply system installed, while pile driving and electric welding machines from Japan have been put into trial operation. More than 40,000 tons of steel tube piles were shipped to the site.

A modern rolling mill project which can make thin sheet steel up to 1.5 meters wide has been basically completed at the Wuhan Iron and Steel Company. The project consists of a continuous casting shop, a hot rolling mill, a cold rolling mill, and a silicon steel sheet mill. It has rollers up to 1.7 meters wide and a designed capacity of 3 million tons of sheet steel a year. The whole production process will be computerized.

REFINERY BEGINS OPERATIONS

The Zhejiang oil refinery began producing gasoline, kerosene, diesel oil, heavy oil, and liquified petroleum gas on November 20. The refinery, which has an annual processing capacity of 2.5 million tons of crude oil, has vacuum distillation, catalytic cracking and other installations, plus storage tanks and two berths for tankers up to 24,000 tons. Petrochemical plants in Xinjiang and Wuhan also began operations in 1978. 完

China International Notes

The "International Notes" section regularly featured in these pages is replaced this issue only with a special compilation of China's purchases of technology and equipment, world-wide, in the first months of 1979.

Compiled by Marie-Louise deVegvar and Dori Jones, these tables provide breakdowns by sectors, products v. technology, and sales v. negotiations. A complete list of China's 1978 purchases by the same authors is available from the National Council at a cost of $10 per copy.

The tables were assembled from press reports collected over the course of 1978–1979. In some cases the value figures and the dates of announcement of sales are approximations; the starred dates indicate that the precise date of contract signature is known. Where local currency values are given, the dollar values are based on IFM month-end rates. Within each category, the sales appear first, followed by the negotiations. NVG stands for "No Value Given." Place names in China are spelled according to the pinyin transliteration system.

In forthcoming *CBR* issues, such tables will appear regularly incorporating the most up-to-date statistical materials on China's foreign trade, the section will include lists of China's purchases by sector, latest figures on US-China trade, trade projections, and profiles of China's industrial and agricultural output.

SINO-AMERICAN TRADE, 1971–1978
($ millions, % change)

	1971*	1972	%	1973	%	1974	%	1975	%	1976	%	1977	%	1978	%
US Exports	—	63.5	—	740.2	+1066	819.1	+11	303.6	−63	135.4	−55	171.3	+27	823.6	+381
US Imports	4.9	32.4	+ 561	64.9	+ 100	114.7	+77	158.4	+38	201.0	+27	202.7	+ 1	324.1	+ 60
Total	4.9	95.9	+1857	805.1	+ 740	933.8	+16	461.9	−51	336.4	−27	374.0	+11	1147.7	+207

* 1971. No percentage.

1979: LICENSING AGREEMENTS TO THE PRC TO DATE

Company	License	Value Millions of US $ (Local Currency If Known)	Date Announced
Agricultural Chemical Plants			
Norsk Hydro (Norway)	Fertilizer plant process equipment	$10 (50 million kroner)	1 /3/79
*Stamicarbon B.V. (Netherlands)	Process technology for urea plant to be built by Kellogg Continental	NVG	1/10/79
Petrochemical Plants and Petroleum Equipment			
Oil (Indiana), UOP (US)	Process technology for 2 aromatic complexes (Union Oil, UOP) and process technology for terephthalic acid plant (Standard Oil) to be built by Lurgi (W. Germany)	$50	1/10/79
Hercules Inc (US)	Technology for petrochemical facility to be built by Pullman-Kellogg (US)	$1+	1/10/79
Union Oil (US)	2 hydrocracking process plants for 2 oil refining plants built by JGC (Japan)	NVG	1/10/79
	Subtotal	**$61+**	

* Licenses marked by asterisk are integral parts of sales listed in "1979 Sales and Negotiations to Date" chart.

CHINA: 1979 SALES AND NEGOTIATIONS TO DATE

Company	Product/Plant/Technology	Value Millions of US $ (Local Currency If Known**)	Sale (S) or Negotiation (N) Date Announced
Agricultural Chemicals			
ANIC (Italy)	Urea and ammonium sulphate	$20	S: 2/1/79
Agricultural Chemical Plants			
Kellogg Continental B.V. (Netherlands)	Advisory, consulting, training, administrative services for urea plant (1,740 tons/day)	NVG	S: 1/10/79
Agricultural Commodities			
(Australia)	3-year agreement for supply of wheat (2.5 million mt for 1979) (Total value for 1979 to 1982 $800 million+)	$285 (1979)	S: 1/20/79*
	Wheat (500,000 mt, brings 1979 shipment to 3 million mt)	NVG	S: 1/20/79
(US)	Wheat (2.1-2.2 million mt contracted for 1979, so far)	$290	2/79
(US)	Corn (2 million mt for delivery in 1979)	$207	2/79
(US)	Cotton (65,000 mt for delivery in 1979)	$85	2/79
(US)	Soybeans (60,000 mt for delivery in 1979)	$16	2/79
(US)	Soybean oil (20,000 mt for delivery in 1979)	$11	2/79
Agricultural Machinery			
Massey-Ferguson (Canada)	Farm machinery	NVG	N: 1/79
Construction Equipment			
Magnavox (US)	Construction survey equipment	NVG	S: 1/5/79
Bridgestone Tire, Yokohama Rubber, Toyo Rubber (Japan)	Heavy construction vehicles	$1.98 (¥400 million)	S: 1/79*
Rexnord Inc. (US)	Road-building equipment, parts	$4	S: 1/26/79
Electronics			
Hitachi Ltd (Japan)	80,000 color TV sets	NVG	S: 1/29/79
Sharp Corp. (Japan)	Large-scale integrated manufacturing plant for electronic desktops, watches	NVG	N: 1/79 (subject to COCOM)
Metal Mining and Processing			
US Steel (US)	Feasibility study for development of iron ore mine, beneficiation, pelletization plants	NVG (total value of project $1,000+)	S: 1/5/79*
Nippon Light Metal (Japan)	Aluminum smelting plant (80,000 tons/year capacity)	NVG	S: 1/9/79
Outokumpo Co., AOR Industries (Finland)	Equipment for copper smelter: automation instruments, furnace	$5.8 (23 million Finnish marks)	S: 1/8/79
Alcoa (US)	Technical and economic feasibility study for building of 2 new integrated aluminum projects and modernization of an existing plant	NVG	S: 2/1/79
SNC Group (Canada)	Iron ore mine, ore processing plant	NVG	N: 1/79
Consolidated Goldfields, Selection Trust, Rio Tinto Zinc (UK)	Development of resources of copper, manganese, lead, zinc, titanium, bauxite	NVG	N: 1/79
Mining Equipment			
Euclid Inc. (US)	10 R-170 copper mining trucks, replacement parts	$7	S: 1/5/79*

CHINA: 1979 SALES AND NEGOTIATIONS TO DATE—Continued

Company	Product/Plant/Technology	Value Millions of US $ (Local Currency If Known**)	Sale (S) or Negotiation (N) Date Announced
Petrochemical Plants and Equipment			
Toyo Engineering Corp. (Japan)	4 ethylene plants, nitric acid plant, nitrophosphate plant	$537 (¥102 billion)	S: 1/79
Mitsubishi HI, Nissho-Iwai, Shokubai Kogaku Kogyo (Japan)	Acrylic acid ester plant	$537 (¥102 billion)	S: 1/79
Lurgi Kohle und Mineraloel-technik (W. Germany)	6 chemical plants: coal-based ammonia synthesis plant, methanol synthesis plant, 2 aromatic complexes (benzine and paraxylene), 2 terephthalic acid plants (using US process technology)	$850	S: 1/10/79
Mitsubishi HI (Japan)	Styrene butadiene rubber plant at Shengli Petrochemical works	$33.3	S: 1/79
Toyo Engineering, Mitsui and Co, Sauko Trading (Japan)	2 vinyl chloride monomer manufacturing plants	$57	S: 1/79
C-E Lummus (US)	Lummus proprietary ethylene process, related DGP process, computer control technology for 4 new ethylene plants	NVG	S: 1/79
Zimmer AG (W. Germany)	Polyester polycondensation plant (1.2 billion pounds/year)	$217 (DM400 million)	S: 1/79
Petroleum and Natural Gas Development and Refining			
Fluor Corp. (US)	Development of several oil-processing facilities (3 crude oil stabilizer plants, 6 vapor recovery units)	$8	S: 1/18/79
JGC, Union of California (Japan, US)	2 large-scale oil refinery plants	$76.9	S: 1/18/79
(Japan, US)	Development of underwater oilfield near Hong Kong	$1,000	N: 1/25/79
Cameron Iron Works (US)	20 blowout preventers (for land, jack-up, workover rigs)	$6	S: 1/79
Fluor Corp. (US)	Modernization of 2 petroleum processing research facilities; management and technical advisory services, equipment and materials for pilot plants at Beijing and Fushan	$11 (reimburseable cost)	S: late 1/79
Chiyoda Chemical & Engineering Construction (Japan)	Installation of units for removal of excess wax from crude oil at Shengli fields, Using Mobil dewaxing process	$15	S: 1/25/79
Chiyoda Chemical & Engineering Construction (Japan)	Residue thermal cracking processes for plant at Nanjing	$9	S: 2/7/79
Ports and Related Equipment			
East Asiatic Co. (Denmark)	Modernization of liner shipping services, supply of marine container equipment and services	NVG	S: 1/15/79
(Japan)	Cooperation for modernization of ports	NVG	N: 1/79
Power			
Hydro Quebec (Canada)	Large hydroelectric developments	NVG	N: 1/79
General Electric Corp., Northern Engineering Industries (UK)	4 coal burning power stations	NVG	N: 1/79
Japanese power companies	Advice on construction of four large dams and hydroelectric power stations	NVG	N: 2/79
Scientific Instruments			
Varian Associates (US)	Spectrometers	$5	S: 1/16/79

CHINA: 1979 SALES AND NEGOTIATIONS TO DATE—Continued

Company	Production/Plant/Technology	Value Millions of US $ (Local Currency If Known**)	Sale (S) or Negotiation (N) Date Announced
Shipping			
A&P Appledore (branch of British Shipbuilders, UK)	Design engineering work for modernization of shipbuilding industry	NVG	S: 1/22/79*
Steel and Steel Products			
US Steel (US)	Steel products (100,000 tons)	NVG	S: 1/23/79
Steel Plants and Equipment			
Daido Steel Co. (Japan)	Technical assistance to double production capacity of Fuxun (Fushun), Luda (Luta), Dalian (Talien), and Daye (Tayeh) special steel plants and conversion of ordinary steel plant in Tianjin into special steel plant	NVG	S: 1/31/79
Midland-Ross Corp. (US)	Steel mill furnaces	$10-$40	N: 1/17/79
Textile Plants and Equipment			
Kanebo (Japan)	Polymerization polyester fiber plant (Shanghai)	$79.3 (¥16 billion)	S: 1/10/79*
Host Pajama, Itoman (US, Japan)	Sewing machines, steam irons for production of light underwear; also marketing services	NVG	N: 1/3/79
(Japan)	Factory for manufacture of brassieres	NVG	N: 1/12/79
Textile Products			
Okamoto Riken Gomu (Japan)	Rubberized nylon cloth (150,000 feet)	Buyback arrangement: raincoats made at factory to be sent to Japan	S: 1/18/79
Tourism			
Sky Caravan (US)	Construction of hotels in 13 cities	$700	N: 1/11/79
Great Sincere Pty (Australia)	Construction of 8 small prefabricated two-story motels for 6 cities	$25	S: 1/24/79
Japan Air Lines (Japan)	Series of 500-1,000-room hotels in 8 cities	NVG	N: 1/79
Transportation Equipment			
Toyota Motor Sales (Japan)	Modernization of truck-assembly plant	NVG	N: 1/79
Isuzu Motors (Japan) (Japan)	Cooperation in production of small-sized trucks	NVG	N: 1/79
	Technical assistance to modernize 2 railroad lines	NVG	S: 2/8/79
Miscellaneous			
Linde AG (W. Germany)	4 units for separation of air into oxygen and nitrogen, a nitrogen wash plant, and a facility for production of high-pressure oxygen and nitrogen	$96.8 (DM180 million)	S: 1/79
Canadair (Canada)	CL-215 water bombers	NVG	N: 1/79
Macmillan Bloedel (Canada)	Long-term contract for pulp, linerboard, newsprint	NVG	N: 1/79

Total Value of 1979 Sales To Date: $3.5 billion
Total Value of 1979 Negotiations To Date: $1.7 billion+

* Date contract signed. All other dates when the sale or negotiation was announced.
** Dollar conversions at month end rates quoted in IFS (IMF).

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Co-Chairman, Textile Committee, National Council for United States-China Trade

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