

THE MAGAZINE OF THE NATIONAL COUNCIL FOR US-CHINA TRADE JAN-FEB 1976



U.S. CHINA BUSINESS REVIEW®

美中貿易



美中贸易全国委员会
及
会员公司
为

周恩来总理的逝世
向

中华人民共和国
各外贸机构的负责人和朋友们
表示诚挚的
哀悼和慰问

The National Council for US-China Trade
and Its Members
Offer Their Sincere Condolences
to Their Friends and Colleagues in
China's Foreign Trade Organizations
on the Death of Premier Chou En-Lai

U.S. CHINA BUSINESS REVIEW



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Front Cover: "Morning at Tzin San," one of the exquisite needlepoint tapestries on show in Washington, D.C. January 1976. This reproduction cannot possibly convey the subtle colors and striking effect of the work itself. See page 3.

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CHINA TRADE EVENTS

PEORIA, ILLINOIS, January 26-30

The International Marketing and Cultural Institute (Intermark) is having a four-day seminar January 26-30 on the subject of Trading in the Asian Market, at the Hilton, Peoria. January 29 is devoted to China. Among the speakers is Bill Clarke, head of China Desk at Commerce. For details contact Gregory J. Kaiser at (309) 688 9543.

ANN ARBOR, MICHIGAN, February 9-10

Vice President Melvin W. Searls, Jr., will speak on "Selling to China" at a two-day workshop on business with China sponsored by the University of Michigan in cooperation with the National Council. Further information can be obtained from Frixos Massialas, Program Director, Graduate School of Business Administration (313) 763 1387.

CHICAGO, February 25

A round-table discussion on "Selling Products, Plants and Technology and Buying Goods from the People's Republic of China" will be held at the Hyatt-Regency Chicago, from 9:00 a.m. to 5:00 p.m., sponsored by the Mid-America Committee for International Business and Government Cooperation, Inc., and in cooperation with the National Council. Melvin W. Searls, Jr., National Council V-P, will be a panelist. For further information call Robert L. Friedlander (312) 236 8745.

NATIONAL, February 20-March

A delegation from the China National Light Industrial Products Import and Export Corporation will visit the US for two months, sponsored by the National Council. Sporting goods, shoes, stationery and musical instruments will be discussed. For information call George Driscoll at (202) 331 0290.

LOS ANGELES, March 4

The National Council is planning a conference on US-China Trade, to be cosponsored by the Ports of Los Angeles and Long Beach. For details contact George Driscoll, Director of Business Advisory Services (202) 331 0290.

CINCINNATI, March 5

A conference on China's Future sponsored by the Cincinnati Council on World Affairs has panels on China's economy. Speakers include Dwight Perkins, Michael Oksenberg, and Richard Solomon. Details from (513) 241 2149.

NEW YORK, March 17

The Association of the Bar of the City of New York will hold a meeting on "Recent Developments in Chinese-American Trade Relations". Nicholas Ludlow, Director of Publications and Research at the National Council will speak. For further information: Nicholas Koureides (212) 752 6400.

NEW YORK, March 31

"Economic and Trade Relations with the People's Republic of China" will be the topic of a conference sponsored by the International Study and Research Institute, to be held at the Harvard Club. An alternative date for the conference may be March 24. Details are obtainable from Arno G. Huth, Executive Director (212) 877 8628.

HOUSTON, April 8

The National Council is tentatively planning a conference on US-China trade. For details contact George Driscoll at the Council (202) 331 0290.

KWANGCHOW, April 15-May 15

The Chinese Export Commodities Fair will be held.

ST. LOUIS, September

The National Council is tentatively planning a conference on US-China trade. For details call George Driscoll (202) 331 0290.

YOUR MEN IN PEKING

When in Peking, US Commercial Staff at the US Liaison Office will be happy to assist you. Please feel free to call them if you are in China's capital.

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Shanghai workers group spent 130 days embroidering this realistic view of the Great Wall from a color photograph.

Back in Style- CHINESE NEEDLEPOINT

How China in Needlepoint
Is Reaching Twenty-four
Million US Customers

The best opportunities for US firms interested in developing imports from China over the long-term are available only to those with the patience to establish a durable relationship with the Chinese at the working level. The chances of forming such a relationship are likely to be considerably enhanced if the product line involved is part of a Chinese tradition, or, better still, is something that will appeal to customers in the US while retaining the Chinese flavor. Last year Vera Companies set a precedent, blending Chinese silk and production processes with American designs à la Chinois (See UCBR July-August 1975). This year another US firm is introducing Chinese needlework to the American public. How this came to fruition is described below in a story that every US importer of Chinese goods should find enlightening.

Earlier in this century, China was the prime supplier of needlepoint to the world. The potential for her again to become a major supplier to the US is currently being explored by LeeWards Creative



Soochow embroidery workers specialize in silk, often using only one strand at a time for their delicate motifs.

Painting Becomes Needlepoint—Chinese artists used painting of 2000-year-old Mount Tai as model for the "Greeting Pine."



Crafts, Inc., sponsors of a needlepoint exhibition in the US designed to stimulate the interest and whet the appetites of America's estimated twenty-eight million needlepoint devotees. The company, a division of General Mills, has negotiated the first major contract to import Chinese finished needlepoint tapestries and is one of the first to bring in kits and pre-finished tapestries from China to the United States.

The exhibition, "China in Needlepoint," will be in Washington, D. C., from January 28 through March 21, and in Chicago April 8 to May 1, opening in Washington in the main exhibition hall of the National Geographic Society. The forty finished tapestries on display are part of a group of 120 brought from Shantung and Shanghai to the US by LeeWards Vice President for Merchandising, Charles Eaker.

The tapestries are intended as the spearhead of a far broader effort by the company to promote Chinese needlepoint kits and pre-finished tapestries (for which the customer fills in the background) on the US mass market. Thirty-five different types of kits or tapestries are being sold in LeeWards' stores in conjunction with the exhibition.

The Elgin, Illinois-based company—the largest art needlework business in the world—has 30 stores in 19 states across the country and does an extensive mail-order business, sending out 24 million catalogues a year offering the gamut of do-it-yourself needlepoint items—10,000 to 15,000 different types in all. The Chinese items now included in the catalogue are geared for the budget-conscious and retail for \$5.00 to \$40.00.

The finished tapestries are much more expensive, retailing from \$500 to \$2,500, with one double-sided silk masterpiece priced at \$12,000. LeeWards does not intend to push these more costly items on the mass market.

Six Years of Effort

The current exhibition, which may be the beginning of a national tour, marks the climax of six years of effort on the part of Eaker to re-open this long-untapped source of needlepoint art for Americans. The extremely slow process—typical of any such negotiations between Americans and Chinese—should prove illuminating for any firm which has not yet made the plunge into the intricacies of the Sino-US trade, as well as to those interested in comparing their own experiences to LeeWards'.

The story, as told by Eaker, began as part of his general attempt to expand the sources of needlework supply for his company. During the 22-year hiatus in trade between the US and China, virtually the only suppliers of needlepoint to this country were Madeira, the Canary Islands, and Taiwan. Certain that it would be only a matter of time before trade with China was possible again, Eaker first made an

inquiry in 1970 through his agent, John See of the Hong Kong firm, World Traders.

"I think the entire process was much smoother because we made use of John's expertise," he comments, "I couldn't have dealt directly with the Chinese nearly as well as he. From Hong Kong, he can watch the scene more closely. He speaks several dialects of Chinese and was able to listen in on the Chinese negotiators' comments among themselves, and then pass that on to me. The important thing is, he understands them and he understands us."

Going Direct

There was no response to this initial inquiry. Following President Nixon's trip to China in February 1972, Eaker decided to take matters into his own hands and wrote directly to the Ministry of Foreign Trade in Peking and to the Chinese Embassy in Ottawa, Canada. He had one response, he recalls. "They said, 'Don't call us we'll call you.' So I sat back and waited."

It was not until two years after these direct approaches that there were further developments. In March 1974, a telex came from John See in Hong Kong, informing Eaker that the Chinese had agreed to meet with him there, and advising him to come as soon as possible. Eaker made the trans-Pacific flight post-haste and soon found himself at a Chinese needlepoint exhibition in Star House in Hong Kong, face-to-face with managers of factories from the Peking, Shanghai and Shantung embroidery branches of the

A Thousand Different Shades—Shanghai worker embroiders a piece, surrounded by piles of yarn spanning the spectrum.





Checking against model photo, stitchers create two life-like little boys out of yarn.

China National Light Industrial Products Import and Export Corporation.

"They must have done a lot of investigation into the US needlepoint market before inviting me over, Eaker notes. "They knew a great deal about US market conditions, although many were very young and a little naive concerning international business practices.

"As soon as I saw their artwork, I was enthralled with the idea of having an exhibition in the US and suggested it then and there. The Chinese lit up; they obviously liked the idea." He bought a few needlework pieces at that time and then came back to the US to propose the exhibition to his colleagues, who were also enthusiastic.

The following fall, Eaker was invited to the Canton Fair. He again met with representatives of the Light Industrial Products Corporation textile divisions from Peking, Shanghai and Shantung, at which time he assembled the collections of 120 finished tapestries and of kits and pre-finished pieces.

From Yingtai and Red Star

All of his selections were from the Red Star Factory in Shanghai and the Yingtai Tapestry Center in Shantung. While this appeared to be a random result, Eaker does not know whether the Chinese had pre-selected items from only these two sources. He did notice a definite demarcation in style between the two, with Yingtai specializing in more traditional work and Red Star in more random stitch patterns. The majority of the items were from Shanghai, which has the larger factory. Both locations supplied finished and pre-finished items.

The contract was signed at the Fall 1974 Fair, specifying FOB Hong Kong terms. It was Eaker's feeling

that the Chinese worked hard to bring their prices into line with those quoted by Madeira and other producers so that LeeWards could count on a decent profit margin. Eaker was very pleased with the prices agreed to and estimates that he was a comfortable 60% above his first cost, after figuring in tariffs, delivery rates, and so forth. He wrote the order on his own contract blanks, with terms he normally uses. No long-term arrangement was made.

The orders were signed by officials of the branches from which he bought the products, but they were carefully checked by the head office in Peking. It was agreed that China's own label would appear on the finished tapestries, but that LeeWards' name would appear on the kit packages with no Chinese label inside since the latter were a type of item designed especially for LeeWards.

Delivery Time Left Open

The company opened a Letter of Credit in the US through the Hong Kong and Shanghai Banking Corporation—the choice of the Chinese—rather than through the bank it normally uses, the First National Bank of Chicago. LeeWards never actually made out an invoice to a Chinese foreign trade corporation, preferring to handle the entire payment process through World Traders of Hong Kong. As a result, payment went through two steps: Chinese RMB was converted to Hong Kong dollars and then to US dollars, and the letter of credit was opened in US dollars. There were what LeeWards considered "minor problems" with the payment, because the company lost about 10-15% in the conversion from RMB to Hong Kong dollars, due to market fluctuations.

Eaker did not press for a specified time of delivery after the Fair, knowing that some of the finished pieces of tapestry would take a year to make. In addition, he was not affected by the vagaries of seasonal fashion changes, and the accompanying anxiety over possible late deliveries. Therefore, he felt that it would be better to ask for only an approximate date for receipt of the goods. There was general agreement that most of the finished tapestries would arrive in the US by July or August of 1975. Estimated delivery period for the pre-finished pieces was far shorter—three to four months on the average.

LeeWards shipped similarly to most other importers of Chinese merchandise, but made use of its agent in Hong Kong to help facilitate the process, since the company was aware that the Chinese have had shipment difficulties. When the tapestries were shipped to Hong Kong, World Traders was there to receive them, instead of just letting them go right through to be loaded at the wharf. The agents blocked and packaged the items and then arranged for them to be loaded on the next available ship leaving port—usually the American President Lines. The shipments were unloaded at Oakland.

Works of Art?

The first finished pieces (as opposed to kits or pre-finished tapestries) began arriving in June 1975, eight months after the contract was signed. As of January 1976, almost all items had been received, even those ordered as late as September and October 1975. The opening of the exhibition was probably a factor in hurrying delivery of some items, but Eaker does not feel that it was the entire cause of a prompt Chinese response. As promised, less than four months passed between placement of the order for pre-finished goods and receipt of those goods. Requested samples were shipped by air through Hong Kong.

"The Chinese were cognizant of problems all along the way, and always agreeable," Eaker comments. "But I think the whole thing worked out so well because we had John See—we didn't try to do it ourselves. If we'd done that, we would have had far more communications and delivery problems."

The US customs has actually presented more of a problem to LeeWards than have the Chinese. Customs has refused to recognize the finished tapestries as works of art because they are not painted, costing the company an additional 50% of the value of each item. They are currently appealing and protesting the issue and believe it will come before Customs court in late 1976 or early 1977.

In May 1975, LeeWards hired the prestigious public relations firm, Ruder and Finn, to handle publicity for the exhibition. Executives felt that the show warranted more than the usual straight advertising they had normally used before. Ruder and Finn have arranged for locations for the two exhibitions, brochures, newspaper coverage and appearances on television talk shows.

Visits to Chinese Factories

In September 1975, Eaker returned to China with LeeWards President Lee Anderson and their two wives to tie up loose ends and fill in missing details for the exhibition. They had many unanswered questions about needlepoint and other types of embroidery in China and had decided to press for permission to visit a variety of factories in Shantung, Shanghai, Soochow and other places. First stop on their itinerary was Peking. They hoped that the second stop would be Shantung's Yingtai Tapestry Center, whose managers were extremely eager to host them, and where many of the exhibition tapestries were being made. But Peking officials gently informed them that it would be impossible to visit that province, where apparently no American had set foot since before the Chinese revolution in 1949. The accommodations were inadequate for the visitors, said the Chinese, and the train ride very long—18 hours. Hearing this last argument, Eaker was not so unhappy just to meet with the Shantung representative in Peking.

While in Peking they also could not budge the Chinese from a point-blank refusal to let them visit the Soochow Embroidery Institute, but they did receive permission to see the Red Star Needlepoint Factory in Shanghai, where they spent a day observing and photographing needlepoint processes. As noted above, it was at this facility that LeeWards' major orders were filled.

Shanghai's Red Star Factory— A Babe in One Arm and Needlepoint in the Other

The Red Star, which exports mostly to Europe, employs 200 stitchers, 80 percent of them women, on the actual premises, but makes use of a much larger network of outside piece-workers, the LeeWards visitors discovered. "We saw many women sitting on front steps along the Shanghai streets, with a baby under the arm and some needlepoint in hand," comments Lee Anderson, LeeWards president.

It was curious that so many seemed to be doing it for their own pleasure, especially after the visitors discovered that yarn in China costs \$5.00 to \$6.00 a skein—far above the US price (presently about \$1.00-\$1.50) and a hefty chunk of an average Chinese family's income. He was then informed that the factory draws on three thousand home workers from local communes and Shanghai neighborhoods who take the opportunity to earn some extra income in this manner.

In detail of picture opposite, it is possible to see the actual sweater knit used by innovative Shanghai stitchers.





Almost as good as being there: a needlepoint view of Hangchow's famous West Lake and its Sung dynasty pavilion.

Checks for Quality

Homeworkers are sent semi-finished tapestries from the factory to complete. These are then checked for quality at three points along the way: the commune, the factory, and the Light Industrial Products Corporation. A preliminary check is made by the factory manager in charge of the home workers. Their pieces are then brought into the factory, where approximately twenty women compare them against the original. "The key point is this comparison against the prototype," Eaker emphasizes. "They keep it in the factory at all times as their standard." The workers examine each piece stitch by stitch, color by color, and motif by motif. If there is any mistake, the piece is sent to a group of specialty workers who make the necessary corrections. This painstaking and careful process for quality control met with the admiring approval of LeeWards executives.

Before reaching these checkpoints, the whole process starts when eight designers select the subject matter for the tapestries, using color photographs and famous paintings as models. Technicians then choose the necessary yarn colors from a supply of a thousand hues, a very critical step in the process. Many of the yarns are specially dyed to achieve the desired effects.

Stitchers do not work from a complete sketch. Instead, a simple grid of cross lines drawn on the model photograph or painting is transferred to the canvas to serve as a guide. Usually stitchers combine their labors to create the larger tapestries, which often require hundreds of hours of work.

The factory turns out 400,000 pieces per year. In addition to the needlework done in gros point, petit point and original styles (such as an actual sweater knit), it produces tablecloths, clothing and other machine-stitched embroideries for domestic use.

So far as LeeWards' orders were concerned, negotiations were carried out by two people, who also arranged for the US visitors to stay at the Peace Hotel in Shanghai and provided them with transportation to and from their lodgings to the factory. Another seven individuals took part in the talks at various times.

Following this visit, the LeeWards executives were persistent in again requesting the Soochow trip both because it related to their business interests and because Eaker had selected four silk pieces from Soochow to be included in the exhibition. They felt they needed to view the process of doublesided silk embroidery perfected by the Soochow experts. Permission was at last granted.

"I feel that the request was originally turned down

because the Chinese were not prepared for us to visit Soochow; they had no one to accompany us," believes Eaker. To him, it was clearly not a matter of obstinacy. Finally, China Travel Service was called in to provide a guide, and they were able to tour the embroidery institute.

The Embroidery Workers of Soochow

The Soochow Embroidery Institute is one of four such institutes in China; the others are in Hunan, Kwangtung and Szechuan. The Institute employs 200 staff and workers, including 20 designers, to carry on this traditional art developed over a thousand years ago. Most are women.

There was once a saying among the girls of Soochow: if you cannot do fine silk embroidery, you will never be able to catch yourself a husband. The saying is no longer acceptable in the lexicon of China's policies advocating equality of the sexes, but the Soochow women continue to create exquisite masterpieces of embroidery famous all over China.

In years gone by, the women were known for their "forbidden stitch," which was done with so few silk strands that it often caused stitchers to go blind. Such an elegant and prized stitch was usually reserved for designs on the garments of emperors and court figures.

Present-day Soochow embroiderers pride themselves on one-upping even that fine stitch: they use only one strand at a time for some of their motifs, such as the tail of a transparent fish. It is a width so infinitesimal that it is nearly impossible to see either the thread or the needle's eye. As a result, stitchers are permitted to do it for only an hour or two at a time so as not to injure their eyesight. In addition to the single strand, thread size can include up to 48 strands. A size of 40-48 strands is normal and is used to create over 40 types of stitching.

LeeWards officials were eager to learn the secret of the single-strand weaving technique, but they were politely refused: the technique is a tradition, the Chinese informed them and, therefore, impossible to divulge to others.

Double-Sided Weaving

China's silk embroiderers are also famous for their double-sided weaving technique, some examples of which can be seen in LeeWards' exhibition. Although this technique is several millenia old, it has been improved, as have others, since 1949. Many chemical dyes supplement the natural dyes already in use to create over a thousand vivid and subtle colors.

About ten students per year are selected to study at the institute; they come from art colleges or middle school. After spending three years in basic training, they must put in additional time for advanced instruction.

The products from this institute are not sold di-

rectly by the establishment, but are channeled mainly through a special marketing branch of the Light Industrial Products trade corporation. Under the arrangement made by LeeWards, the tapestries made at this institute were included in the contract with the Light Industrial Corporation's Shanghai branch.

Ironing Out Wrinkles, Including the Title

During the visits to China, small wrinkles in the exhibition were ironed out, such as the basic problem of what to call the event. Eaker wanted to have the title "China in Needlepoint" translated as directly as possible into Chinese, but his hosts—sticklers for accuracy—pointed out that it would be closer to the truth to entitle it, "Places We've Been in China Done in Tapestry" or "Chinese Scenes." After all, the 40 tapestries to be displayed did not show all of China. The upshot was retention of Eaker's choice in English, and a Chinese title which reads, "Chinese Needlepoint Scenery."

This was not the end of the difficulties over the title. The choice of the proper Chinese characters was another episode. "It was a real committee decision," says Eaker. They conferred in person with officials in Peking and then in Shanghai, and spent a good deal of time on the telephone between the two cities before reaching agreement.

The Chinese were also very helpful in providing detailed background information for captions for the needlepoint to be shown in the exhibition. They worked six months gathering the necessary information, including the names of the designers (since the Chinese do not usually record this) and the significance of certain scenes.

The LeeWards China story has proceeded relatively smoothly thus far and the company looks forward to expanding its business in Chinese needlepoint.—SRG. 完

"Bridge at Back Lake", a view near the Summer Palace in Peking, an example of Chinese attention to fine detail.



A Delight and a Bargain . . . KWANGCHOW'S ANTIQUES SHOWROOM

Not far from the Pearl River, on Kwangchow's Hong Shu (Red Book) Road, a small shop stands inconspicuously, almost lost against the grey background of the city, and distinguishable from the two- and three-story buildings which surround it only by a neatly lettered sign in Chinese and English, welcoming visitors who are attending the Export Commodities Fair some two or three miles to the Northwest.

Perhaps because of its relatively obscure location, the shop attracts only a handful of visitors to the Fair. But for anyone interested in antiques and the link they provide with China's past, a trip here is obligatory. For this is the Kwangchow Antiques Showroom, one of the major repositories of late Ching wood carving, porcelain, calligraphy and other artistic scroll work open to foreigners in South China.

Originally catering only to dealers willing to buy in commercial quantities under normal letter of credit terms, the Showroom is now willing to sell to retail customers on a limited basis. Its major business, however, remains with the large volume purchasers who come to Kwangchow throughout the year.

One of Four

For these dealers, the Kwangchow showroom is one of at least four antique marketing centers located throughout the country—others are situated in Tientsin, Peking and Shanghai—though Hong Kong aficionados reportedly have access to outlets in other cities as well. (In the opinion of some of the more experienced buyers, the major source of the antiques is a state-operated enterprise which functions to purchase from Chinese families willing to exchange their heirlooms for cash. A portion of the present inventory, these buyers say, was collected during the latter half of the last decade.)

Interest in Chinese antiques may have reached its peak in the wake of the Fall 1972 Fair, where antique

dealers, particularly Japanese, found a wide range of high quality items on display priced considerably lower than comparable pieces in Hong Kong and Tokyo. Within weeks the news of a bonanza in Chinese antiques had become general knowledge throughout the worldwide buying community.

As a result the opening minutes of the Spring 1973 Fair were marked by a mad scramble, as Japanese, European and Hong Kong purchasers raced towards the display shelves of the Light Industrial Products Corporation's Arts and Crafts Division. Not long after they had affixed their calling cards to almost every piece in sight, indicating a commitment to purchase, the dealers learned that prices for all items had soared seven- or eight-fold from the previous Fair.

The Fall of 1974

During 1974, as an apparent consequence of the new higher prices, and the beginning of a general economic downturn in the industrialized West, Chinese antique sales declined precipitously. The Fall 1974 Fair marked at least a temporary cessation of antique negotiations at the main Fair building, and today buyers are uncertain when discussions at the complex on Hsi Chun Road will resume.

All of which, of course, underscores the importance of the Antiques Showroom for dealers generally, as well as those Fair visitors simply interested in viewing artifacts from China's past. While some experts maintain that the quality of the merchandise exhibited at other outlets is superior, the fact that the Kwangchow branch now engages in retail trade adds to the lure of a visit by the merely casual buyer.

Four Major Departments

The Showroom itself is divided into four major departments, specializing in porcelain, jewelry, woodwork, and scrolls respectively. The quality of merchandise available in the scroll department seems most impressive, though unfortunately the variety of pieces available is limited, especially where *Shu Fa* or calligraphy is concerned. In some cases the scars of re-mounting on landscape and fan paintings are all too plainly visible.

Nevertheless, there are certainly souvenirs, if not bargains, to be had, particularly for the buyer able to exercise a modicum of patience and discrimination. The staff is courteous to the point of graciousness, generally able to communicate effectively in English, and in one or two cases obviously enamoured of—and consequently exceedingly knowledgeable about—their work.

The main service desk of the Tung Fang Hotel can help book taxis for the ten-minute ride to the showroom. At RMB 7.5 for the round trip, including an hour's waiting time for the cab, a visit to the shop on Hong Shu Road is a delight and a bargain as well. 完

HOW ARE CHINA'S EXCHANGE RATES SET?

An examination of the ways by which Peking may establish
its foreign currency exchange rates

James B. Stepanek

For foreign firms and banks, China's foreign exchange rates have always been a mystery. The rates are set unilaterally by the Bank of China, they change frequently, and the changes themselves seem arbitrary. There seems sometimes to be response to world money market rates, at other times no response. The changes in China's currency rates against the US dollar, published in every issue of UCBR, are generally clean-cut percentages, such as -0.60 , -0.80 , or -0.50 , bearing only vague relationship to the fortunes of the dollar vis-a-vis other major currencies. By and large, the rates of China's currency, the renminbi-yuan (RMB), against the dollar is a reflection of the strength of the US currency. Interestingly the RMB : dollar rate has remained stable for two months as of end-January 1976, suggesting that Peking may be pegging China's currency to the US dollar. But in strict terms, RMB rates appear not to be tied to any individual foreign currency.

For foreign firms trading with the PRC, especially those whose contracts are denominated and payable in RMB, gaining some clue as to the behavior of the RMB against foreign currencies can be helpful, if not critical when large amounts are involved—even with forward premiums available against the dollar. For bankers and currency exports, removing some of the veils shrouding Peking's monetary policies can only help to improve understanding of the operation of China's currency in the PRC's foreign trade. In this piece, James B. Stepanek, a Ph.D. candidate at Columbia University who has worked as an economist at the IMF, discusses three hypotheses as possible explanations of the movements of the RMB against major world currencies. The study, based on models run through a computer, and on a specific 15-month time period, while not providing final answers, does at least put the theories to the test.

China's exchange rate policy during 1974 and the first quarter of 1975 sought to maintain rough parity

between the RMB and strong major world currencies. This policy may have reflected a desire by the Chinese to increase the prestige of the RMB at a time when the Government was promoting foreign trade and establishing financial links with western countries.

The RMB appreciated against the currencies of China's principal trading partners in 1974 and the first quarter of 1975 (Chart 1 and Table 1). In this fifteen-month period, the RMB appreciated by 18.1% against the Japanese yen, and by 13.3% against the US dollar¹; only the deutschemark-RMB rate was comparatively stable. Most of this appreciation took place in the last quarter of 1974. Since August 28, 1974, the rates against the RMB of the Canadian dollar, pound sterling and the Hong Kong dollar rose by about 13%, 9% and 10% respectively. As a result of these trends, the trade weighted RMB exchange rate appreciated by 13.2% between December 5, 1973,² and March 31, 1975, (Chart 2 and Table 2).

An examination of these exchange developments does throw light on current hypotheses about the underlying policy. Three of these are examined below:

A Currency Basket Hypothesis

It has been postulated that the Chinese authorities maintain the value of the RMB unchanged in terms of a basket of currencies. Since this basket would include most of the currencies that comprise the SDR basket, it could be assumed that the SDR-RMB rate would be relatively stable. But this has not been the case over the period covered by this study (Chart 2).

One currency basket hypothesis could postulate that the RMB would move according to the weighted changes in the rates of its main trading partners, and never move in the opposite direction of all the currencies in the basket simultaneously. This has not been the case either. Chart 1 indicates that between December 10 and December 31, 1974, the RMB appreciated with respect to all eight currencies of its main trading partners.³

The inclusion in the basket of a commodity, such as gold,⁴ does not solve the problem. On January 30, 1975, for example, the price of gold in terms of RMB decreased by 4.8% compared with December 31, 1974. This decrease would require a large weight to account for the appreciation of the effective RMB exchange rate on that date. Such a large weight is inconsistent with changes in the RMB gold price during other periods in this series. These problems cast doubt on this hypothesis.

However, the major problem is in obtaining a precise picture of the currencies China actually uses in her import and export transactions. Most of China's exports in the period under study, were, for example, denominated in RMB.

Parity with the Deutschemark: The Prestige Factor

It was noted that in Chart 1 the deutschemark, which has recently been the world's strongest major currency, had depreciated against the RMB by 1.2% between March 31, 1975, and December 5, 1973. Also, the DM-RMB rate was stable throughout most of this

period, normally fluctuating by 1-2%. The RMB may have appreciated against other currencies for prestige reasons in order to maintain rough parity with the world's strongest major currency, in this case the German mark.

Two facts tend to support this argument, namely; the fact that the desire for prestige is known to have influenced other trade policies pursued by the Government. The prestige factor has played a role in contributing to the confidence of businessmen who may otherwise have been reluctant to trade with a communist country. Secondly, foreign trade is a state monopoly in China. This permits greater flexibility in exchange rate policy,⁵ hence greater, amenability to the political priorities of the Government.

Adjusting for Foreign Inflation

Finally, exchange rate policy may attempt to adjust for the difference between domestic and foreign rates of inflation. This assumes that the authorities seek to maintain the purchasing power parity of the RMB. If this were the case, then the RMB would have appreciated by 18.8% during 1974 (Chart 3 and Table

Table 1.
PEOPLE'S REPUBLIC OF CHINA: CURRENCY UNITS PER RMB
Percentage change compared with December 5, 1973

	Japanese Yen	HK\$	US\$	DM	Canadian \$	Pound Sterling	French Francs	Italian Lira
Trade weights ¹	.369	.192	.144	.087	.068	.062	.042	.036
1974								
Jan. 8	5.2	-1.2	-1.7	7.1	-2.5	3.1	8.1	2.3
Feb. 26	2.1	0.4	-0.1	0.8	-2.8	1.0	6.6	5.5
March 29	1.2	1.7	2.8	-1.4	-0.1	0.3	8.0	4.4
April 29	4.1	4.4	4.4	-3.0	0.4	0.4	11.9	8.2
May 30	3.6	3.3	3.3	-0.5	-0.6	1.0	11.5	9.3
June 26	4.1	2.6	2.6	-0.4	-0.6	0.8	10.9	9.0
July 26	9.2	4.1	3.6	0.6	1.0	1.2	6.9	8.5
Aug. 28	8.2	1.0	0.2	0.9	-1.0	1.0	6.5	8.0
Oct. 11	8.7	2.3	1.8	0.4	0.0	1.9	6.8	11.0
Nov. 6	10.9	3.1	3.4	0.0	1.9	3.0	6.4	12.0
Nov. 26	13.2	0.7	5.7	-1.7	4.4	6.3	8.0	14.8
Dec. 10	13.8	0.1	6.3	-0.4	4.9	6.9	5.8	15.1
Dec. 31	17.2	3.4	9.0	-0.4	7.0	8.6	6.7	15.3
1975								
Jan. 30	18.8	3.9	11.7	1.0	11.5	9.9	6.5	16.6
Feb. 28	17.4	6.4	14.8	-0.9	14.6	10.4	5.4	17.6
March 14	17.1	8.6	14.1	0.4	14.8	10.1	5.8	17.9
March 31	18.1	10.9	13.3	1.2	13.7	10.1	5.6	16.8

¹ 1973 trade weights adjusted to a total of 1.0 as weights sum of 0.566.

Table 2.

PEOPLE'S REPUBLIC OF CHINA: TRADE WEIGHTED EXCHANGE RATE, SDR UNITS AND GOLD PER RMB

Percentage change compared to December 5, 1973

	Trade weighted (effective) RMB Exchange rate ¹	SDR per RMB	Gold fine ounces per RMB
1974			
January 8	2.50	—	-19.3
February 26	1.25	—	-41.2
March 29	1.57	—	-38.1
April 29	3.57	—	-34.7
May 30	3.23	—	-33.1
June 26	3.14	—	-27.8
July 26	5.46	3.4	-27.5
August 28	3.88	2.1	-32.2
October 11	4.75	3.1	-32.1
November 6	6.12	4.1	-39.1
November 26	7.23	5.6	-40.7
December 10	7.53	6.1	-37.9
December 31	10.09	7.5	-39.4
1975			
January 30	11.71	8.7	-34.6
February 28	12.19	9.9	-34.2
March 14	11.99	10.0	-33.3
March 31	13.19	9.7	N/A

¹ Trade weights are indicated in Table 1.

Table 3.

PEOPLE'S REPUBLIC OF CHINA: WEIGHTED CHANGE IN EXPORT AND WHOLESALE PRICES OF CHINA'S PRINCIPAL TRADING PARTNERS, AND CHINA'S PARITY EXCHANGE RATE¹

Percentage change of monthly averages compared to

the December average, 1973

	Weighted Change in Export Prices	Weighted Change in Wholesale Prices	RMB Parity Exchange Rate
1974			
January	4.37	4.52	4.51
February	9.36	7.96	8.03
March	10.92	9.62	9.69
April	13.21	11.00	11.11
May	14.98	11.86	12.02
June	17.70	12.89	13.13
July	19.58	14.84	15.08
August	24.37	16.50	16.89
September	24.43	16.74	17.12
October	25.30	17.90	18.27
November	27.46	18.69	19.13
December	29.19	18.20	18.75

Source: IMF, International Financial Statistics, various dates.

¹ The trading partners and trade weights are the same as in Table 1. Since Hong Kong is excluded, the weights are adjusted to a total of 1.0 as the weights sum to 0.808.

3). However, the effective rate appreciated by about 10%.

The hypothesis is not necessarily invalidated for three reasons: First, the Government can adjust either the exchange rate, or export prices (in RMB),⁶ in order to change the foreign price of Chinese exports. Thus, the difference between the changes in Chart 3 in the effective and parity rates—8.8% at the end of 1974—could be accounted for by an equivalent increase in the price of trade goods.⁷ This is hard to verify because, among other reasons, a Chinese export price index has not been published.

Secondly, the rate of change of the effective and parity rates as depicted in Chart 3 tend to move in the same direction (except in December 1974). And finally, the authorities may formulate the parity exchange rate differently, or use different price data.

Nevertheless, this is based on a very preliminary model (see the Appendix to this article), the validity of which is open to question. Models with better data and empirical reasoning are yet to be developed.

In conclusion, it is difficult to test this hypothesis or to be sure that China's exchange rate policy is

not based on elements of all three hypotheses in combination, or varies as the Chinese authorities see fit.

¹ US dollar-RMB rates are from official sources. Cross rates for 1974 are based on New York commercial rates; however, beginning on January 30, 1975, official Bank of China cross rates are used. The discrepancy between these two cross rates is normally less than 1.0%.

² December 5, 1973, is used as the base because reliable RMB exchange quotations became available at the end of 1973.

³ The RMB currency basket, if it is used, may include other currencies, but it is unrealistic to think that the currencies of China's minor trading partners would be assigned the large weights needed to make this hypothesis mathematically possible. The Swiss franc is not included in this study for this reason. But it is, of course, not known what currencies are used to carry out China's trade in precise terms. It is known that the Swiss franc is used as a settlement currency in the PRC's foreign transactions, so that there is a case for including it in the basket. If it is included, however, since we do not know how much trade is denominated in Swiss currency, such an exercise is impossible. For a later period than the one used, use of the Swiss franc appears to have increased in China trade transactions, especially with Eastern European countries.

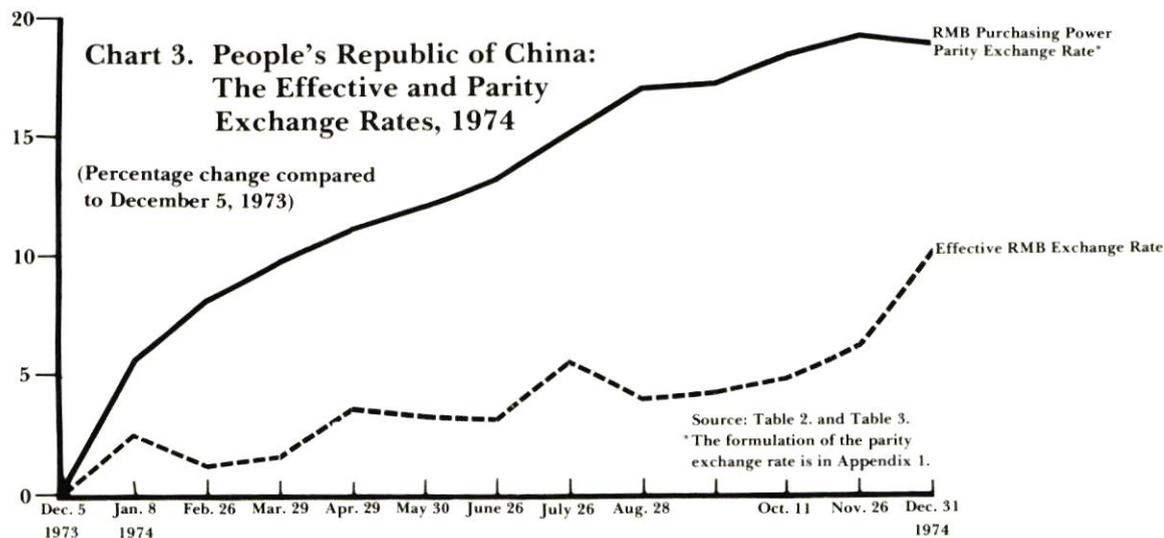
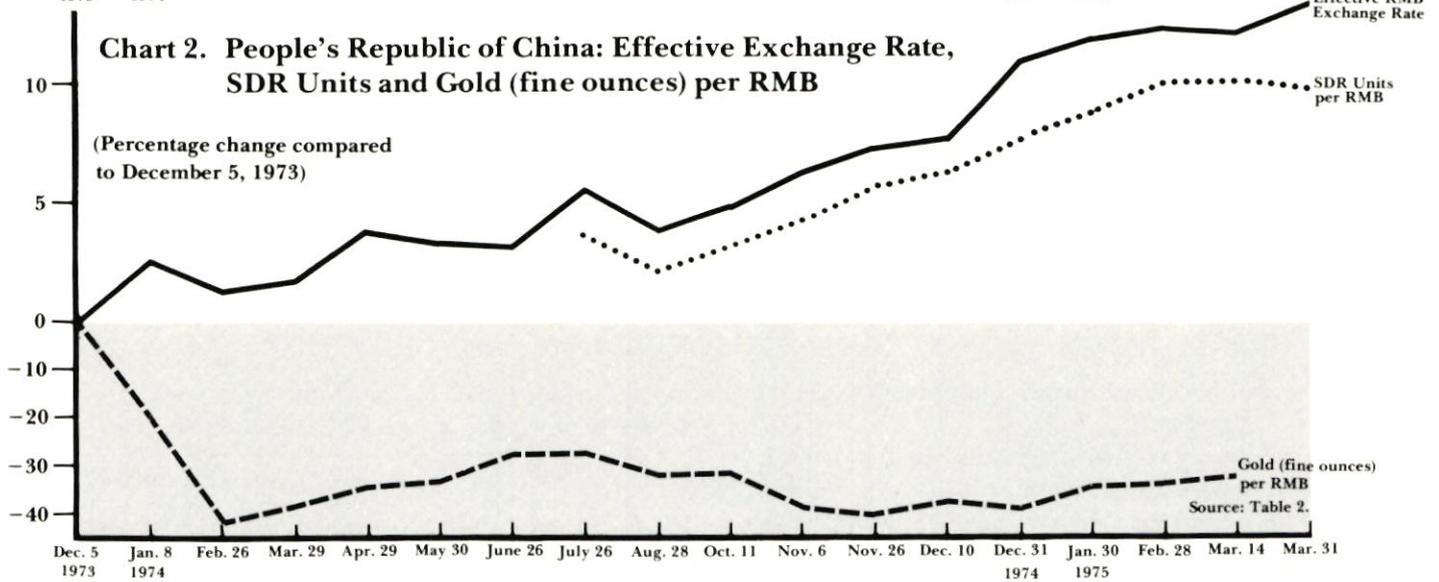
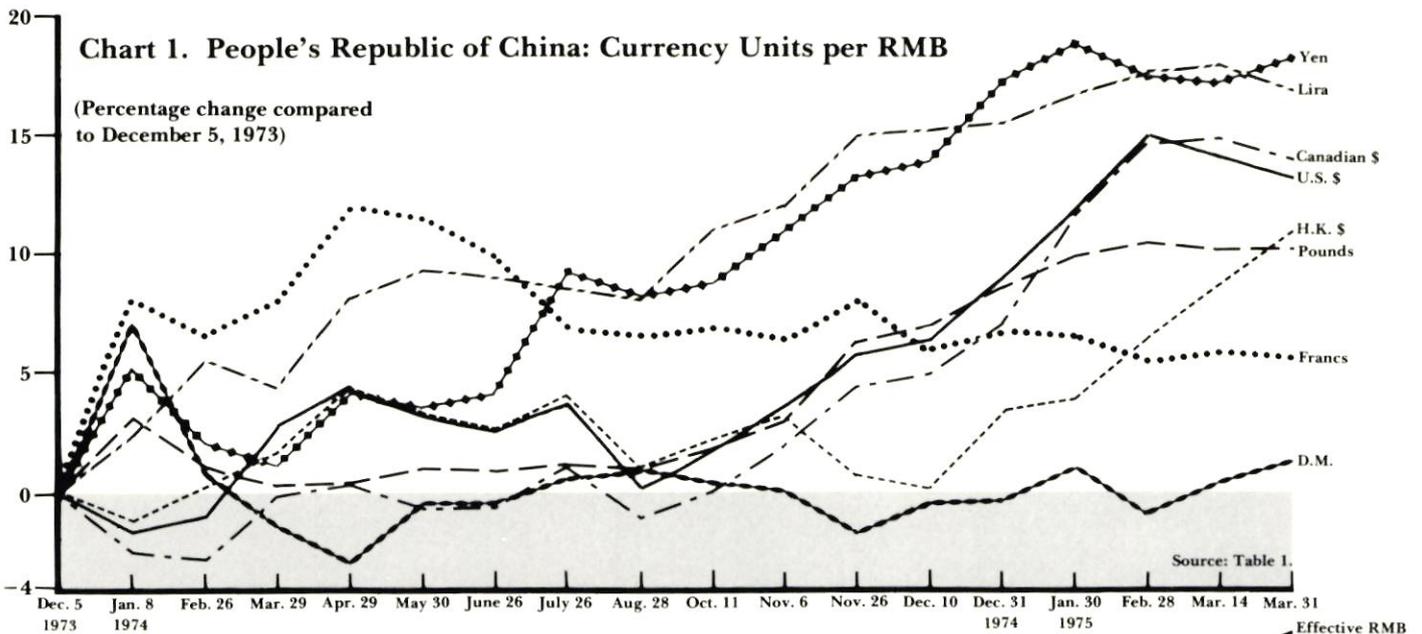
⁴ A commodity other than gold may be included, but Chinese publications do not offer clues as to what it (they) might be.

⁵ Flexibility derives from the fact that in a planned economy the volume and prices (in domestic currency) of trade goods—in addition to the exchange rate instrument itself—are directly controlled by the authorities.

⁶ Beginning in early 1970, when British traders first signed import contracts denominated in RMB, the Chinese currency has replaced the Hong Kong dollar and pound sterling as the principle settlement currency.

⁷ When the Ministry of Foreign Trade increases the prices of exports in domestic currency, for instance, bookkeeping gains on exports would be offset by bookkeeping losses on imports, and vice versa.

CHINA'S EXCHANGE RATE DIFFERENTIALS 1974-1975



People's Republic of China: Definition of the RMB Parity Exchange Rate

The RMB purchasing power parity exchange rate is defined as the exchange rate between a weighted basket of foreign currencies and the RMB, such that it equates the market value of a representative basket of final goods in China and in the economies of its main trading partners. Assume that a representative basket of final goods has only two components: traded (T) and home goods (d); and that transport costs and subsidies, including export subsidies, are all zero. Then the parity exchange rate is the following weighted geometric average. (This definition is slightly modified from that used by Bacha and Taylor, *Quarterly Journal of Economics*, May 1971, p. 217.):

$$r_p = \left(\frac{\Pi_T}{P_T}\right)^\alpha \left(\frac{\Pi_d}{P_d}\right)^{(1-\alpha)}$$

where r_p is the parity rate; the P_s and Π_s are the prices of traded and home goods (from China's point of view) in China and abroad, respectively; and α is an expenditure weight. Converting to logs, and solving for $\frac{\dot{r}_p}{r_p}$:

$$\frac{\dot{r}_p}{r_p} = \alpha \left(\frac{\dot{\Pi}_T}{\Pi_T}\right) - \alpha \left(\frac{\dot{P}_T}{P_T}\right) + \frac{\dot{\Pi}_d}{\Pi_d} - \alpha \left(\frac{\dot{\Pi}_d}{\Pi_d}\right) - \frac{\dot{P}_d}{P_d} + \alpha \left(\frac{\dot{P}_d}{P_d}\right)$$

It is assumed that $\frac{\dot{P}_T}{P_T} = \frac{\dot{P}_d}{P_d} = 0$ because the Chinese

monetary authorities have taken strong action in the past to fulfill their publicly avowed aim of maintaining stable domestic prices. The most recent official data indicates that in 1953-57 the average annual retail price index rose by 0.5 per cent. In 1974 China's export prices increased sharply. However, since an index of ex-

port prices does not yet exist, $\frac{\dot{P}_T}{P_T}$ is also equated to zero.

Finally, the trade weighted parity exchange rate in 1974 is found by this equation:

$$\frac{r_p}{r_p} = \alpha \sum_{i=1}^7 w_i \left(\frac{\dot{\Pi}_T}{\Pi_T}\right)_i + \sum_{i=1}^7 w_i \left(\frac{\dot{\Pi}_d}{\Pi_d}\right)_i - \alpha \sum_{i=1}^7 w_i \left(\frac{\dot{\Pi}_d}{\Pi_d}\right)_i$$

where $\sum_{i=1}^7 w_i = 1.0$ and α , using estimated 1973 GNP and trade data for China = 0.05. The numerical results are in Table 3. 完

The international capital market and world currency situation were two of the subjects discussed when the banking members of the National Council hosted the CCPIT delegation in September 1975. At session held at Manufacturer's Hanover Trust in New York, David Rockefeller, Chairman and Chief Executive Officer of Chase Manhattan Bank addresses the delegation. Photo: Mark Godfrey Magnum/Fortune.



US TECHNICAL DATA AND PRODUCTS

Licensed for Export to China July 1975-December 1975

This list represents a continuation of the tables published in Volume 2, No. 4 of UCBR. As before, the products licensed suggest areas in which China has displayed a definite interest. The list, which is in general chronological order, indicates only US government approval and does not necessarily represent sales made by US firms.

Summary Totals 1971—December 1975

<i>Item</i>	<i>Value (\$)</i>
Products Licensed for Export to China	\$261,016,658
Products for Temporary Export to China	82,809,822
Technical Data Approvals for China	399,617,000 +
Products Licensed for Reexport to China	1,502,045 +
Products Licensed for Temporary Reexport to China	209,335
Total All Approvals	745,150,860 +

US Products Licensed for Export to China—1975

Third Quarter

<i>Item</i>	<i>Value (\$)</i>
Electro-Medical Apparatus	38,935
Magnetic Recorder and Parts (for Education)	63,567
Magnetic Tape (for Broadcasting)	18,100
Magnetic Tape (for Broadcasting)	1,426
Magnetic Tape (for Broadcasting)	1,375
Parts and Accessories NEC (Replacements Parts)	165
Subtotal	123,568

Fourth Quarter

<i>Item</i>	<i>Value (\$)</i>
Organic Chemicals (for Medical Purposes)	212
Lasers for Research	13,608
Organic Chemicals (Manufactured Artificial Resins)	18,792
Organic Chemicals (Manufactured Artificial Resins)	21,112
Organic Chemicals (Manufactured Synthetic Resins)	55,860

Electrical Machinery for Language Research	25,938
Electronic Computing Equipment (for Business Application)	1,997
Magnetic Tape for Broadcasting	620
Magnetic Recorders and Parts for Broadcasting	6,650
Magnetic Tape for Broadcasting	50
Petroleum and Petroleum Products (Manufactured)	20,466
Organic Chemicals (Sample)	1
Subtotal	165,306

US Products Licensed for Reexport to China—1975

Third Quarter

<i>Item</i>	<i>Value (\$)</i>
Organic Chemicals for Film Processing (Reexport from Hong Kong)	20

Fourth Quarter

<i>Item</i>	<i>Value (\$)</i>
Photographic Film (Reexport from Hong Kong)	12
Magnetic Recorders and Parts for Broadcasting (Reexport from FRG)	94,335
Organic Chemicals for Film Processing (Reexport from Hong Kong)	176
Electronic Computing Equipment (Reexport from FRG)	20,700
Subtotal	115,223

US Products Licensed for Temporary Reexport to China—1975

Fourth Quarter

<i>Item</i>	<i>Value (\$)</i>
Magnetic Recorders and Parts for Broadcasting (Reexport from FRG)	94,335

US Technical Data Approvals for China—1975

Third Quarter

Quotation for Aircraft Engines	NVG
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Fourth Quarter

Sulfuric Acid Plant	NVG
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第三編 进口业务

第一章 交易前的准备工作

第一节 按照计划进行业务安排

和出口业务一样，对外贸易企业的进口业务也是有计划地进行的。计划进口任务单(进口货卡)下达，计划任务确定后，对外贸易企业业务部门的第一步工作，是把计划内的商品分成类别，交给经营这一类商品的商品员来具体执行。在执行时，我们首先要研究当前形势和国内外市场情况，估计季度或一定时期的完成率，订出下期规划和指标，以保证如期完成。为了保证计划任务的如期完成和超额完成，在布置任务时，应按轻重缓急，周密的考虑和研究，做到有步骤、有目的地来执行计划。同时，我们还应在执行过程中，定期检查计划的进度和完成情况，遇有困难问题，更应及时研究解决，以免计划的进行受到阻碍。

(一)计划商品的分类 一个对外贸易企业在接到计划任务后，首先要明确货卡内容，初步排队可按轻重缓急进行，再详细核对各个项目有无错误或遗漏，这点极为重要，因为这不仅是商品技术规格的审查(当然规格是首要的)，同时对

HOW CHINA VIEWS IMPORTING: Preparatory Work Prior to Trade

This is the fourth in a UCBR series of translations from the PRC's Foreign Trade Practice, published in Shanghai, 1959. The book was reprinted in 1972 and reportedly remains one of the principal texts at Peking's Institute of Foreign Trade.

Section I.

Carrying Out Business Arrangements According to a Plan

Just as in exporting, foreign trade enterprises involved in importing proceed in a planned way. After the contents of the plan have been set forth and the import priority list has been passed down from higher authority, the first responsibility of the business department of a foreign trade enterprise is to categorize the various commodities given in the plan by type, and commit each type to the charge of the appropriate personnel for concrete action. At this time, in order to finish the task on schedule, we should first study the overall situation as well as domestic and international market conditions, develop a timetable for completing work according to seasonal or fixed-time requirements, and set down regulations and directives for the next time period. In order to insure that the plan is fulfilled, and is carried out promptly, at the time responsibilities are assigned, we must very

carefully study and research, according to our priorities, and proceed to implement the plan in a step-by-step manner with an objective firmly in mind. Also, as the plan is being carried out, we should set aside a period of time to assess its progress and prospects for completion. This is particularly important should difficulties which would require ameliorative action be encountered, so that the momentum of the plan would not be slowed.

Section II.

Dividing the Commodities in the Plan

After a foreign trade enterprise has received its responsibilities in the plan, it must first clarify the priorities, lining things up to be carried out in order of importance, and then carefully checking each item for mistakes and omissions. This point is particularly important. Not only is it relevant to the commodity's technical specifications (of course, specification is of primary importance) but at the same time it is useful in other respects as well, such as checking for mistakes in the translation of Chinese-English terminology, seeing whether the country of origin and the brand name have been set down, insuring that required attachments and estimated value declarations are sufficient, etc. If problems can be uncovered in the early stages, then it is possible to contact the end-user early enough so that revisions can be made and loss is avoided.

NEW COUNCIL DIRECTORY

The National Council intends to publish a 1976 supplement to its 400-plus page Chinese-language Directory of American Companies circulated in China last year. Over one hundred US firms participated in the Directory in 1975. Please address all enquiries to May Li Phipps, Director of Translations at the Council. Special rates will apply to revised 1975 texts.

Section III.

Commodity Specifications

The uses and specifications of commodities indicated in the plan are very important. If a specification is set out incorrectly, not only does it harm the nation's foreign exchange position, but it delays construction and production times. Consequently, it is first necessary to see whether or not the commodity specifications which have been set down are comprehensive, and whether they fit the uses indicated. All of this has relevance for the purchasing of spare parts. It is hoped that the end-user elucidates this clearly. There are also some organizations which initiate purchase studies on the basis of seeing new products advertised in magazines. The best thing to do in this case is to write down the name of the magazine, or attach the ad as reference. When the name and the specifications are incomplete, difficulties can arise at the time of purchase. If a particular size or specification is required, it is best to enclose blueprints; with regard to specifications there are also considerations of contractual flexibility which must be spelled out clearly; with regard to chemical raw materials composition and type should be specified; on electrical conductors special attention should be paid to frequency, voltage and turnaround speeds, etc. If the specifications are in Chinese, we must study the mechanical stipulations which accord with international use so that they can be translated into foreign languages. In sum, work should be clear and comprehensive, so that non-Chinese can readily understand our requirements, can send us quotes, and not waste time dispatching inquiries.

Section IV.

Sending Out Substitutes

After studying contents of the plan, depending on the experiences of the business, or information from domestic and foreign magazines and newspapers, as well as materials from our export departments, it is sometimes permissible to persuade end-users, in two different ways, to use substitutes to economize on foreign exchange.

1) In most cases where specialized commodities and

components are not used we can practice self-reliance and insofar as possible link domestic firms with domestic factories; where there are commodities we are exporting which have specifications close to our needs, we can use these as substitutes, thus saving foreign exchange.

2) Regarding end-users specifying commodities of a particular brand or from a particular factory, we can use past information to let these end-users know that lower priced products from various countries can be used as a substitute for the particular brand that has been requested. However, we certainly must have a good understanding of the product's effectiveness. At the same time we want to understand the conditions of the end-users use, so as to avoid affecting production.

Section V.

Soliciting End-Users Opinion to Modify the Plan or Supplement its Content

Sometimes end-users don't let us know in adequate detail the contents of the plan, or they mis-estimate the true cost. So when we suggest they use substitute materials, it is necessary to contact them by using a form. In the form the name and telephone number of the end-user contact should be clearly specified, as well as the plan number, so as to simplify liaison. If the plan is to be revised, it is necessary to obtain formal approval from the end-user in writing, in order to clarify responsibility. When contact is made by phone, the best thing to do is note down the name of the person contacted and the date of the call for future reference. When the end-user unilaterally changes or cancels the plan, written notice is required. In sum, in the process of implementing the plan, the only way to insure buying cheap and good products from abroad is to maintain very close contact with the end-user.

Section VI.

Efficiently Recording Organizational Purchase Orders

In the process of carrying out the plan and maintaining contact with business entities both at home and abroad, a great amount of time passes from the moment of initial inquiry, involving complicated conditions and details as well as frequent revisions. If there is not a sound recording system, all of these cannot be referred to easily. Because of this, where we are in the process of carrying out the plan, we should organize a registration form according to the plan's number so that at any time we can record inquiries, quotations and other related matters. In this way, making references will be simplified with regard to various aspects of the plan's progress, and any time the end-user or superior organization wants information, you will be able to notify them immediately. 完



The Minmetals delegation at Council offices shortly after their arrival in the US. The leader of the mission, Mr. Chang Yu-pin, Deputy Director General of the Corporation, stands at left, next to Christopher Phillips, President of the National Council.

COUNCIL ACTIVITIES

SOLID RISE IN MEMBERSHIP SPURS INCREASED COUNCIL ACTIVITIES IN 1976

The National Council's plans and activities for the 1976 Bicentennial Year, the fifth year of America's new trade with the People's Republic of China, are already well in motion, spurred on by steadily rising membership—now over the three-hundred mark. The year will see a program of trade missions to and from China, conferences throughout the US, representation by the Council, both at the Canton Fair and at China's export-oriented Fairs, and further development of the Importer's Committee and individual industry committees representing both importers and exporters.

Prelude to the New Year was the testimony by Christopher H. Phillips, President of the National Council, at Congressional hearings on the state of US-China relations. In addition to oral testimony, a prepared statement was presented at these hearings, which were held on December 8, 1975, by the Subcommittee on Investigations of the Committee on International Relations, US House of Representatives. Copies of this statement were sent to all Council members. (Further copies are available on request from the Council.)

The Council was aggrieved to learn of the death of Premier Chou En-lai and sent messages on behalf of its members to all China's foreign trade corporations. The following telegram was sent to the China

Council for the Promotion of International Trade: "Saddened to learn of passing away of Premier Chou En-lai. Please accept the sincere condolences of all the members and staff of the National Council for US-China Trade. Christopher H. Phillips. January 8, 1976."

The President and staff of the Council attended the day of mourning at the Liaison Office of the PRC in Washington, D. C., on January 15 on behalf of the members of the Council. A wreath of white flowers was presented by the Council for the ceremony.

Council Representative to China

The National Council was invited to send a representative to the Chinese-oriented fairs early in 1976 sponsored by the China Native Produce and Animal By-Products Import and Export Corporation. The Council's representative, Hong Kong-based John Kamm, visited the Feathers and Down, Fur, and Carpet Fairs in Shanghai, Peking and Tientsin and found American companies to be attending all three.

Kamm reported that the Chinese, now becoming more comfortable with these recently-initiated (1975) product fairs, felt restricted by only being present at the twice-yearly Canton Fair. Generally, the main activities in these product lines on world markets did not coincide with the Spring and Fall timing of the Canton event.

In addition, the specialized fairs meant the trade corporation could talk with professional buyers rather than with the many traders in Canton to whom buying (such as in carpets) was a sideline. Full details of the Fairs will be in the next issue of UCBR. For a list

George Driscoll, Business Advisory Services Director of the Council, in the new premises of NCUSCT at 1050 17th St.



of China's export fairs in early 1976, see this issue's Importer's Notes.

While Kamm was in Peking he met with officials of the CCPIT who had visited the US earlier and also with officials at the China National Native Produce and Animal By-Products Corporation.

Delegations To and From China

A six-person Minmetals delegation arrived on January 23 for a six-week trip during which they will meet with over a hundred US minerals, metals and hardware buyers. The group is expected to visit Washington, Boston, New York, San Francisco, and Los Angeles.

The leader of the group is Mr. Chang Yu-pin, Deputy Director General of the Corporation. Deputy leader is Madame Chao Hung-yu, Manager of Minmetals' Export Department. The other members of the delegation are Mrs. Chang Yen-fen, Messrs. Ke Kuei-sen, Liu Mei-jung, and Yang Tin-pao.

Minerals and metals accounted for the largest single share of Chinese products exported to the US in the first ten months of 1975. During that period, some \$40 million worth of these commodities entered the US from China, representing a third of all American purchases from the PRC. Tin was by far the largest category, worth \$32.4 million in that period.

A number of other potential missions to and from the PRC have been under discussion with the Chinese. Included in these talks has been the mission of the National Council to Peking, which is expected to go to China sometime in the Fall.

Conferences in Major Cities

On January 22 and 23, a conference on the Legal Aspects of Doing Business with China was held in New York under the joint auspices of the Practising Law Institute and the National Council. Speakers included Walter Sterling Surrey, General Counsel to the National Council; Eugene Theroux, former Vice-President of the Council, and Professor Gene Hsiao, a member of the Council's legal committee.

Other Council sponsored conferences planned include events in Los Angeles, Houston and St. Louis. For details see the China Trade Events page in this magazine.

Importer's Steering Committee Moves Ahead

The importer's group of the Council had an important meeting early in the year to map out plans and discuss a new charter, to bring the functions of the Importer's Steering Committee into focus with its increased and developing responsibilities.

At the January 16 meeting, the Steering Committee agreed to increase the number of industry committees to five and appointed Chairmen for the committees from among the members of the Steering Committee. The Committees and their Chairmen are as follows:

Textiles—Chairman, Textiles and Fibers—Veronica Yhap, Dragon Lady Traders; Co-chairman, Garments—Robert Bologne, J. C. Penney. *Foodstuffs, Native Produce and Animal By-Products*—Chairman, Foodstuffs—David Cookson, ICD Group; Co-chairman, Native Produce and Animal By-Products, Julius Klugmann, Julius Klugmann International. *Light Industry*—Chairman, Harold Potchtar, Toscana Imports, Ltd. *Metals, Minerals and Chemicals*—Chairman, Metals and Minerals—George Krieger, ACLI; Co-chairman, Chemicals—Herbert Roskind, Koch International Trading Company, Inc. *Machinery*—Chairman, Stanley Lubman, Lubman and Company.

The Charter specifies that members of the industry committees will be chosen on a nationwide basis to “broaden their ability to be responsive to each of China’s Foreign Trade Corporations.” Council members interested in serving on one of the Committees, should write to the Committee Chairman, c/o The National Council for US-China Trade, 1050 17th Street, NW, Washington, D. C. 20036. Those not interested in participating on a committee, but wishing to be informed of its activities, are also asked to so indicate in a letter to the Chairman.

And Trade Predictions For 1976

Technology, equipment and manufactured goods will dominate US exports to the People’s Republic of China in 1976 predicted Christopher H. Phillips, President of the National Council, in a message to the press on January 19.

He pointed to some of the major areas of American technology in which the Chinese have displayed increasing interest during the past months—either by contracts or enquiry: minerals and metals processing equipment, machine tools, iron and steel production equipment, petrochemical processes and plant, mining technology, liquefied natural gas technology, oil exploration, production and transportation equipment, and electronic and scientific equipment.

“As you know, the primary aim of the Chinese during their Fifth Five-Year Plan [1976-1980] which began on January 1, 1976, is to build an ‘independent and relatively comprehensive industrial and economic system’ before 1980,” said Phillips. And he stressed, “Their achievement of this goal will almost certainly call for the kinds of technology which the US can provide best.”

Although details of the Fifth Five-Year Plan have not been disclosed, Phillips expects China’s buying scheme to become apparent this year, noting that during the last Five-Year Plan the peak of the PRC’s purchasing activity occurred during the middle three years.

He noted that planning conferences had taken place in China for agricultural mechanization, coal mining, fertilizer production and food processing which suggested some of China’s future priorities.



Meet our librarian—Margaret King in the Council’s new library in Washington, D.C.

The Council President anticipates 1976 two-way Sino-US trade to remain at about the same level as 1975, though more equally divided between imports and exports. In 1975 trade amounted to \$462.1 million, including \$303.8 million worth of exports to China and \$158.3 million of imports from the PRC.

Balanced Trade

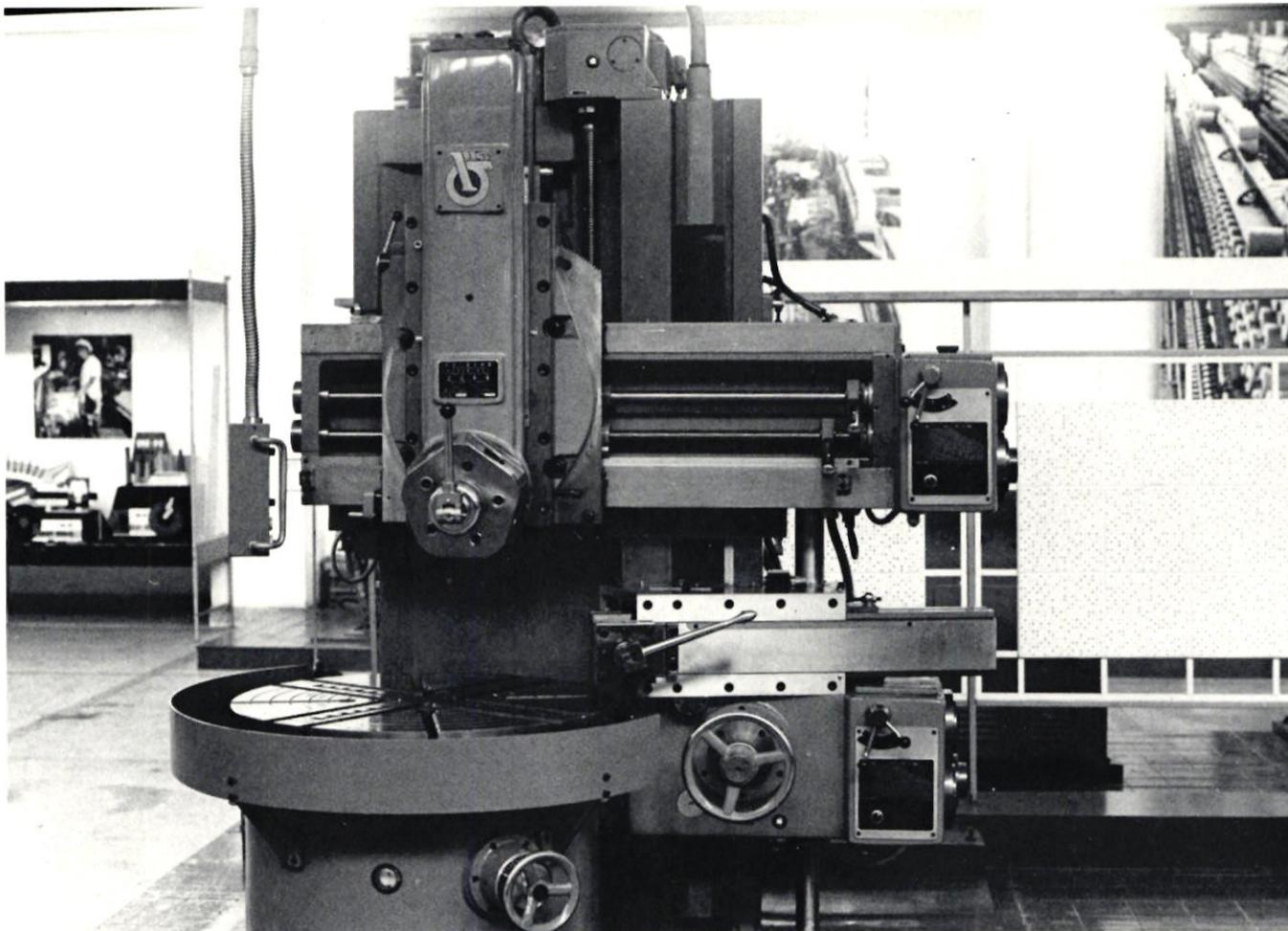
He pointed out that the Chinese have been pressing for balanced trade with the United States for some time. “Prior to 1975, the trade balance was even more heavily lopsided in favor of the US because of our massive exports of grain and other agricultural goods, which accounted for over 80 percent of all US sales to China. This year agricultural exports are expected to account for less than 20 percent,” said Phillips.

He expects US imports from the PRC, which have been running at \$15-20 million a month during the latter part of 1975, to continue to rise with the strengthening of the US economy, with the dominant categories to remain about the same—tin, tungsten, antimony, graphite and bauxite, antiques, fabrics, baskets and other plaited goods, raw silk, tea, and shellfish.

One likely feature of this list of 1976 is fireworks. Perhaps in anticipation of the Bicentennial celebrations, American buyers placed record orders for Chinese fireworks at the Fall Canton Fair; and during the first eleven months of 1975, \$2.9 million worth of pyrotechnical articles were landed in the US.

“We look forward to an active year in Sino-US trade,” said Phillips.

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Machine Tools: critical to China's industrial development. Canton, Fall 1975.

CHINA INDUSTRY REPORTS

Market surveys are usually necessary for marketing abroad. A vexing aspect of exporting to the PRC, however, is developing quality information on relevant segments of Chinese industry. As most China traders quickly learn, Peking is generally unwilling to divulge anything that might be considered economic intelligence. The Chinese apparently define economic intelligence in the broadest possible terms. Trade statistics are unpublished and industrial and agricultural production indices are almost always referred to in the relative, usually against some absolute that defies discovery.

Faced with these and other obstacles, analysts of the Chinese economy must forage through a mass of data, some of which is second or third hand, to construct even a marginally comprehensive picture of China's developmental progress.

In the last several years, a number of economists from business, academia and government have published China industry studies that provide useful be-

ginnings. The results of their work are uneven, but a broad range of industrial sectors is covered in these reports, as indicated below. All these reports are available for inspection by National Council members at the Council's library in Washington.

Agricultural Machinery

With China's new Fifth Five-Year-Plan thought to be placing a very high priority on agricultural mechanization, the importance of agricultural machinery in the China market cannot be over-emphasized. Too bad then that Geoffrey McCarron's treatment of the subject in *Doing Business with China: American Trade Opportunities in the Seventies* (Praeger 1974; William Whitson, Editor) is so shallow. There is some statistical information on Chinese tractor production, but it stops at 1965. In general, this selection offers the reasonably well-informed industry observer little that he most likely didn't already know.

Aircraft

The most wide-ranging study of the Chinese aircraft industry currently available comes from Hans Heymann, Jr., formerly of the Rand Corporation, under whose auspices the study was carried out. *China's Approach to Technology Acquisition: Part I—The Aircraft Industry* is a 75-page report, prepared for the Defense Advanced Research Projects Agency. While strategic analyses give the work its character, some of Heymann's technical assessments may be of interest to aircraft manufacturers. And even if the report is not a market survey in the strict sense, it does contain sufficient material to give the informed analysts some good insights into the state of the art in China. It can be obtained from the Rand Corporation, Santa Monica, California 90406. Heymann has also contributed a chapter on the Chinese Air Transport Industry to the Whitson volume. The ground covered here is similar though not identical to the Rand study, concentrating more on the development of the Chinese civil aviation system.

Analytical Equipment

The Sino-British Trade Council (SBTC), a London based private organization backed by the Association of British Chambers of Commerce, the China Association, the Confederation of British Industry and the London Chamber of Commerce, periodically publishes Chinese industrial surveys. Their *Survey of the Chinese Analytical Equipment Industry* is simply a listing of factories which produce analytical equipment and an address listing for Chinese ministries, iron and steel plants, oil refineries, gas and coke plants, coal mines, chemical plants and scientific institutions, in effect a directory to end-users of analytical equipment in China. The survey can be obtained by writing to SBTC at 25 Queen Anne's Gate, London SW1H 9BU.

Automotive

Jack Baranson, an independent consultant, has a chapter on the Chinese automotive industry in the Whitson book which may be the single most valuable Chinese industry survey in the entire volume. It is, however, somewhat of a rehash of previously published material, and lacks the depth of similar studies in the JEC reports. (See below). Nonetheless, there is good information here, with some useful analysis on the impact of politics on the development of this industrial sector. Treatment of automotive related commerce involving China, Europe and Japan is fairly thorough.

Chemicals

Business International, which provides research services for major international corporations has already brought out three China market surveys, with a fourth dealing with the paper and printing indus-

try on the way. The *Chemical Industry Survey*, published in October 1974, was reviewed by UCBR (Vol. 2, No. 2, p. 48). The survey contains chapters on origins of the Chinese chemical industry, fertilizers, insecticides and fungicides, industrial chemical, synthetic fibers, plastics, detergents, and synthetic rubber, dyestuffs, pigments and paints, as well as imports of chemical plants. It includes a list of various types of chemical plants, trade statistics, and projections in all relevant areas. Copies may be ordered by contacting BI's New York headquarters at One Dag Hammarskjold Plaza, New York 10017.

Volume 2, Number 6, of *US China Business Review* also carries an intensive survey of the Chinese chemical industry, prepared by Sy Yuan, a staff engineer with Chevron Chemical, who visited nine Chinese cities in 1973. Yuan's article includes statistical information on China's chemical trade with non-communist countries, a selective listing of existing chemical plants in China, as well as a table of foreign chemical plant purchased by the Chinese, complete with capacity, and in some cases technology involved. The article focuses on the future directions of the industry, discusses the implications for trade, and suggests that increasing emphasis will be placed on the development of this sector in the years to come.

Electric Power Equipment

Another source of information on various segments of Chinese industry is the Bureau of East-West Trade (BEWT) in the Department of Commerce. Their *Electric Power Equipment* market assessment for the PRC, published in February 1975 is a no-nonsense presentation assaying the prospects for 12 products, ranging from power wire and cable to nuclear reactors and parts in the China market. It is short—less than 20 pages—but useful because of the quality of the technical insights. It can be obtained by writing BEWT at the Department of Commerce in Washington. Copies are sometimes also available at Commerce field offices located in major cities throughout the US.

Electronics

A previous Joint Economic Committee report, the 1972 Economic Assessment for China, contains a fairly detailed chapter on the Chinese electronics industry by Philip Reichers. Though the work is somewhat dated, it identifies the main areas where development needs to take place, and its judgments retain merit.

The Whitson book also contains a chapter on electronics in China, this by D. L. McGurk. It is brief and, unfortunately, too superficial to be of much use to anyone seriously trying to assess the present state of the art in China. McGurk does, however, touch on the importance of the export control procedures in high technology sales to non-market countries.



A Peking truck, on show in Canton, Fall 1974.

A comprehensive study of the PRC's electronics market has recently been published by Fred Glynn/Marketing Research (220 Sacramento St, Suite 1206, San Francisco, Cal 94115). The report, titled "China's Electronics Industry and Market" contains a forecast of the market potential for 116 types of components and 129 types of equipment, plus a list of sixty of the PRC's electronics manufacturing facilities. The 276-page study, published in November 1975, is the most up-to-date available.

Fertilizers

The British Sulphur Corporation's 39-page monograph, *Review of the Fertilizer Market in the People's Republic of China*, is just about everything a good market survey should be in 1976, even though it was published in 1973. There are sections on the historical development of the Chinese fertilizer industry, domestic production capacity, and domestic production, supply, raw material resources and, perhaps most importantly, future prospects, including the impact of turnkey plant imports. The *Review* can be obtained by writing the British Sulphur Corporation, Ltd., Parnell House, 25 Wilton Road, London SW IV INH, England.

There is also a chapter on Chinese fertilizers by Julian M. Sobin, President of Sobin Chemicals and a long time China trader, in the Whitson book mentioned above. It is a sound overview of the Chinese fertilizer situation but cannot compare with the depth of the British report.

Food Processing

Food Processing is the latest in the Business International series of Chinese Industry Surveys. Some eighty pages in length, it has chapters on individual resources, including estimates of crop size for major foodstuffs, transport and storage, food processing which contains, among others, sections on canning

and labelling, and distribution of plants arranged by product. Also included is a chapter on the manufacture of food processing and packaging machinery broken down by segment (e.g., refrigeration, dairy, canning) and a list of import and export statistics for both foodstuffs and equipment, including company case studies. The report is available from Business International in New York.

Iron and Steel

Alfred Usack, Jr., and James Egan have added to our knowledge of China's iron and steel industry and its developmental implications for foreign trade with their chapter in *China: A Reassessment of the Economy*, published by the Joint Economic Committee of the Congress on July 10, 1975, available from the Government Printing Office. Their treatment of the subject includes a survey of the raw materials base, a section on the development of the steel industry including its Soviet influenced phase, the period of the Great Leap Forward, and current problems and prospects, as well as an identification of major steel facilities. An important part of the survey is the appendix which is given over in large part to statistical analyses of production levels for a variety of steel related products, both crude and finished.

Volume 2, Number 4 of the *U.S. China Business Review* (UCBR) contains another in-depth look at China's steel, prepared by William W. Clarke, Director, People's Republic of China Affairs in the Department of Commerce Bureau of East-West Trade. Clarke has industry experience and, as a result, he has an excellent feel for the problems of production. His articles is thus a survey of China's steel sector in general, but it is also a marketing report giving solid analyses of the success and short-comings of different parts of the industry, and their implications for China's future purchasing plans. This added dimension should make it particularly interesting for executives and engineers in the field, and more useful to them than the Usack/Egan presentation.

Materials Handling Equipment

Perhaps the most comprehensive and most current of the Sino-British Trade Council industrial surveys is their 1975 publication on *Mechanical Materials Handling Equipment in China*. This survey includes sections on the construction industry, docks and harbors, mining and excavating, as well as offering relevant export statistics. It relies upon western sources in addition to Chinese publications and this adds to the depth of the report immeasurably. Like other SBTC publications, it can be ordered by writing the Council in London.

Metalworking and Finishing Equipment

In the same vein as the Electric Power Equipment assessment, BEWT's *Metalworking and Finishing*

Equipment China market survey offers a concise presentation of trends in this area. One valuable feature of the report is specific identification of potential high sale items. Copies are available upon request from BEWT.

Another survey of the Chinese machine tool industry and attendant trade opportunities is the *Machine Tool Industry* chapter by Chen-yuan Cheng in the Whitson book. Cheng is an economics professor at Ball State University in Indiana and his treatment of the topic includes profiles of major Chinese machine tool factories, identification of imports from selected countries as well as predictions for the future.

Mining

Another Sino-British Trade Council industry survey examines the mining sector. Based almost exclusively on Chinese press reports, the *Mining Survey* reports technical innovations in the mining industry between 1964 and 1972, estimated production statistics for both ferrous and non-ferrous metals, and locations of major mines. Though much of the material is dated, this publication is still a valuable reference. It can be obtained from the Council in London.

Volume 1, Number 6, of *UCBR* includes a sectoral report on *China's Metals and Minerals*. The report discusses the PRC's practices in trading metals and minerals worldwide as well as touching on the geopolitical implications of this trade. Another section of interest for firms interested in marketing their mining equipment to China describes specific areas where sales potential is considered to be high. A case example, citing the successful China sales effort of one US mining equipment firm is presented.

Just published is a report by K. P. Wang of the US Bureau of Mines, entitled *The People's Republic of China: A New Industrial Power With A Strong Mineral Base*. Wang's report surveys China's natural resources, and touches on trade in this area. There is a small section on the present level of mining know-how in the PRC, which may be useful to equipment companies. The report is available from the Government Printing Office.

Petroleum

In the last 18 to 24 months, writing on the Chinese petroleum industry has, as the Chinese say, "sprouted like mushrooms after a Spring rain." *The China Quarterly*, *Foreign Policy* and the *New York Times* have all run major pieces on China's oil within the last year and much more can be expected in the future.

Two studies worthy of mention are *The Petroleum Industry of the People's Republic of China* (Hoover Institution Press, Stanford University, Stanford, California, 1975) by H. C. Ling, and Bobby A. Williams' chapter, "The Chinese Petroleum Industry" in the 1975 JEC report.

Ling's book attracts immediate interest because it is thick (over 250 pages) and basks, at least reflectively, in Stanford prestige. However, almost half of those pages are filled by translations of oil articles from the Chinese press, of dubious value to the technical analyst and the remainder seems a rehash of prior studies.

Unlike Mr. Ling, Bobby A. Williams, a CIA analyst, presents a sober, well-researched and generally convincing picture of Chinese oil development. Williams' work touches on most of the relevant aspects of the petroleum industry in China, including resources, production, equipment needs, oil within the total Chinese energy context and ideological considerations in joint development. There is much fuel for thought here, both in the literal and figurative senses, with the result that "The Chinese Petroleum Industry" will still be studied long after many contemporary works on the subject have become obsolete.

Pharmaceuticals

Another in BI's China Industry Surveys is an analysis of the Pharmaceutical Sector, published November 1974. Chapter headings include China's major health problems, development of modern pharmaceuticals and medical services, the role of traditional Chinese medicine, imports and exports of pharmaceuticals, location of major factories, research activities, and conclusions. Treatment of these topics is not nearly as detailed, nor as incisive as in the Chemicals Sector Survey.

Ships and Shipbuilding

Another Sino-British Trade Council publication is their *Background Survey on Ships and Shipbuilding in China*. Based almost exclusively on published Chinese sources, the survey contains an itemized rundown of ships built in the PRC since 1964 (through 1972) as well as a listing of important technical developments in the industry and a cataloguing of foreign imports for the same time period. The detail offered for such areas as size and speed is uneven, reflecting the content of Chinese news reports. There is no commentary or analysis accompanying this presentation.

Telecommunications

Another 1975 JEC chapter deals with telecommunications, and it lacks none of the thoroughness of the volume's other selections. Prepared by Jack Craig, the telecommunications chapter consists of seven sections—Summary and Conclusions, Historical Development, Organization and Management, Status of Transmission Media, Telecommunication Modes and Services, International Telecommunications, and Broadcasting System. One particularly welcome aspect of Craig's work is the assessment of the impact of imported systems on domestic development.—PDW ㊦



China's Arts and Crafts were on show at London's Olympia for the first time in 1974.

How Chinese Goods Are Marketed in Great Britain

Dick Wilson

For US importers of Chinese products, daily coping with a multitude of problems—from lack of response from FTC's to lack of delivery—involved in their developing trade with the PRC, the experience of other nations' importers of China's goods is always interesting. The British experience, described here by Dick Wilson, has many instructive facets: Britain gave China MFN status long ago, but similar problems to those experienced in the US remain for UK importers; British Ministry of Agriculture officials have visited China—unlike USDA officials as yet—and labeling negotiations with the Chinese are at the same stage as those with some US importers.

Chinese exports to Britain, as judged from UK import statistics, have grown five-fold over the past twenty years, from £12.3 million in 1955 to £66.7 million in 1974. This represents a compound annual growth rate of almost 10%. While this £67 million (US \$145 million) market is evenly shared between primary products (foodstuffs and raw materials, £33 million) and manufactures (£33 million), the trade is in fact most diverse and does not lend itself to

easy analysis. For one thing many of the goods, notably greige cloth, bristles and carpets, are resold to third countries.

But an immediate comment which the 1974 breakdown prompts concerns the continued importance of a handful of traditional lines. Furs, bristles, cashmere, tea and rosin—to take only five of them—still account for almost one third of China's earnings in the UK market. Even within the manufactures list, textiles and carpets account for another one-eighth of the total, so that these seven items so far named tell almost half of the story. Yet, one cannot say that newer lines, especially of manufactures, have not made headway. Over the two decades 1955-74, foodstuffs (+307%) and raw materials (+269%) have not expanded so rapidly as chemicals (+611%) or manufactures (+1193%).

There was a sharp setback in China's sales to Britain in 1962-63, reflecting the "three bad years" after the Great Leap Forward, disguised by the emergency sale over the five years 1959-63 of more than 80 million troy ounces of refined silver bullion worth some £29 million. This was obviously not a regular commercial

export, and the alternative line on the graph shows what the genuine trading position was without the injection of silver. What it amounts to is that the seven years 1955-62 were almost wasted in terms of building up this attractive and, from the Chinese viewpoint, relatively easy market.

The Cultural Revolution caused another dip in 1967, but only of a modest 12% and only for one year. But then again in 1970-71, when bad weather damaged the Chinese economy, there was a sliding back of 17% over those two years. Finally, the combination of domestic stability, higher prices in the immediate aftermath of the Arab oil-crisis and sustained consumer demand in the West led to a rapid increase in the last two years, 1973 and 1974, during which Chinese sales to Britain almost doubled. The 20-year stretch does not seem remarkably erratic: The 10% annual trend rise is clearly there.

Tariff and Non-Tariff Barriers

China approached the UK market in the early 1950's with numerous handicaps. Since she was given most-favored-nation treatment, tariffs have not, on the whole, been the most important of these, except in the negative sense that other countries which are competitors against China have enjoyed preferential rates. This was true throughout the 1950's and 1960's of such commonwealth suppliers as India, Pakistan, Sri Lanka and Hong Kong, and in the 1970's it is becoming true of all the rest of the Third World which now benefits from the GSP (Generalized Special Preference) system operated by Britain before its entry into the EEC and also by the EEC as such. Honey, rabbit meat and pottery are among the products which importers claim will be adversely affected by these recent changes. Because Britain is raising its tariffs to reach the common EEC level, the Chinese product is having to pay more, while its rivals from most of Continental Europe and the Mediterranean, Africa, Asia and Latin America are getting special dispensations.

But the more serious obstacle has been the barrage of non-tariff barriers blocking Chinese goods. As a member of the then Soviet bloc, China was given last place in line and quota restrictions were placed on many of her exports to Britain, either to protect British producers or to satisfy other foreign suppliers who were voluntarily restraining their shipments (of textiles, for example). Some of these have gradually been dismantled, but others have been retained, if only to be used as a bargaining point in the future.

For 1975 there were 18 separate quota arrangements imposed on China. Four of them match the cotton and man-made fibre textile restraints which most other world suppliers are operating under the GATT Multi-fibre Textile Arrangement of 1973. They gave China 3.7 million square metres of fabrics, plus £908,000 worth of garments, gloves and made-up items.

Two are on silk yarn and fabrics (£710,000), one on woolen fabrics, one on footwear (£135,000), one on headgear (£737,000), one on china (£383,500) and one on matches. The remaining seven cover a variety of frozen, dried and canned fruit, vegetables and fruit juice of interest to British producers.

The Chinese have taken an outwardly detached view of these restrictions and do not formally protest them or even recognize them. They leave it to the British importers not only to deal with the problems arising from them, but also to lobby for their removal or reduction. Since quotas are mostly awarded on past performance basis, this gives the existing importers little incentive to make efforts to change the quotas unless there is a very large natural market demand for the Chinese goods in question. In some cases, notably silk goods, the quotas are not even filled. In others, especially porcelain and glass, the restrictions hurt.

Anti-dumping duties have been imposed on some Chinese products, but the only outstanding one is the 0.1 pence duty on alarm clocks first levied on 4 July 1969. At about 60 pence a clock this hardly constituted a deterrent, although for one reason or another this particular trade seems to have faded away.

New Products and Health Regulations

Many new products have been introduced since the early 1950's. The foodstuffs section consisted only of eggs (dried and frozen), tea and a tiny amount of fruit and vegetables in 1955. In 1958 meat products were successfully launched in the UK market, the two major lines being frozen rabbits and canned pigmeat. On the initiative of the chief UK importer, British Ministry of Agriculture veterinary officials went to China to inspect the plants supplying these items and there has been no serious problem on the public health regulation side. Chinese rabbits quickly sup-

Kwangtung trade officials at the Olympia show.



planted Australian and China now commands 90% of the import market, earning £3.8 million in 1974.

Frozen prawns, cocoa butter, walnuts and other edible nuts, have also become strong sellers over the past 20 years. Eggs have suffered from the British entry into the EEC, with its levies on many agricultural imports. Honey appears to be a casualty of recent years. After climbing to become the fifth foreign supplier in 1971, China has fallen back, partly because of over-pricing and also because of the more rigorous health regulations regarding pollutant-content.

Lower Unit Values

For cottonseed oil in 1974 China ranked fourth after the US, Holland and Senegal, with 2,727 tons valued at £666,000. This was 10% of the import market by value, 13% by volume. The unit value worked out at £244 per ton for China, £314 for the US, £369 for Holland and £350 for Senegal.

In some chemicals China does very well. In 1974 she was second supplier of cyclic alcohols after Brazil, with 135 tons valued at £347,000. This was 9% of the UK import market, with a unit value of only £2570 per ton—against Brazil's £9151. In essential oils and resinoids China took third place after the US and France, with 12% of the market by value, 18% by volume.

Third place was also held in gelatin and rosin, after Belgium and France, and after the US and Portugal respectively. In gelatin China sold £666,000 worth, or 11% of the import market, and her unit value was roughly half of the Swiss and one third of the Belgian and French. For rosins Chinese sales totaled £2.5 million, accounting for 21% of the market by value, 25% by volume. The unit price was considerably lower than the American or Portuguese.

China stood second to the USSR for tanned or dressed furskins in 1974, selling 188,000 tons for £2.2 million—equivalent to 18% of the market by value, 19% by volume. The unit cost was £11,702 per ton, against the Russian £17,500.

Traditional Product Lines

In most traditional produce lines China has an assured position. For raw silk China took 81% of the British import market by value in 1974, 82% by volume. The unit value per customs returns was £13.70 per metric ton. China leads in fine animal hair (which includes camel's hair and cashmere), supplying 33% by value and 19% by volume during 1974, this being a case where the Chinese product is intrinsically superior. Comparative unit values per metric ton were £3,671 for China against the US's £1,620 and South Africa's £1,765.

For talc (natural steatite) China was, in 1974, the No. 3 supplier after Norway and France, supplying 10,300 metric tons for £373,000—17% of the import market by volume, 14% by value. Comparative unit

values per ton were £36.21 for China, compared with £36.15 for Norway, £37.20 for France and £75.35 for Italy.

Tungsten sales of 417,000 metric tons for £917,000 in 1974 made China the third foreign supplier to the UK market after Holland and Portugal, with 10% of the import market. Thailand was fourth. The Chinese unit value was £2.199 per ton, against Holland's £2.434, Portugal's £2.100 and Thailand's £1.869.

China is top in bristles, with 62% of the import market by value, or 54% by volume. Shipments of 1171 tons in 1974 earned her £4.6 million. Her unit value per ton was £3913, against India's £7475. In feathers China was third after West Germany and Taiwan, with 381 tons fetching £270,000—12% of the market by value, 16% by volume. Her unit value per ton was £709, against Germany's £1,976, Taiwan's £897 and Singapore's £694.

China topped the 1974 list for raffia, bamboo and similar plaiting materials, with 4,477 tons valued at £513,000. This represented 37% of the market by value, or 54% by volume. The Chinese unit price was only £115 per ton against Singapore's £425 and Thailand's £119.

Greige goods is a long-standing steady line which goes largely through an agent in Manchester, some of it for re-export. China had only 2% to 3% of the UK import market in the mid-50's, hit a peak of 12% in 1958 and has since hovered at between 7%-10% by value, or 5%-8% by yardage. In the mid-1960's China ranked as third supplier after India and Hong Kong, but in recent years has been challenged not only by Pakistan but by Ireland and Canada as well, with Portugal also breathing down her neck. What would have developed had not quotas intervened was a surge in bleached, dyed and printed fabrics, as well as garments. In 1974 China's garment shipments registered just £779,000.

The unit value of Chinese greige goods entering the UK that year, according to customs returns, was £0.16 per square metre, marginally lower than India, Pakistan or Korea, but considerably cheaper than Portugal's £0.26, Hong Kong's £0.29, or Ireland's £0.41. Cheapest of all the major suppliers was, surprisingly, Taiwan at £0.13. In silk fabrics China was second after Italy, with 24,000 tons worth £415,000, with Japan running third in 1974. China's share of the import market was 16% by value, 26% by volume. Her unit price per ton was £17.29 against Italy's £22.51 and Japan's £25.60.

For household porcelain and china the Chinese now command fifth place after West Germany, Japan, France and Czechoslovakia, with almost 5% of the market by value, almost 10% by volume. The 1974 earnings were £147,000 and the unit value (£ per ton) was only £385—compared with Germany's £1346, Japan's £1322, France's £1,222, Czechoslovakia's £567

CHINA'S COMMODITY SALES TO BRITAIN 1970-75

Foodstuffs

<u>£'000</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
MEAT	2,128	2,593	2,579	3,114	4,042
Frozen Rabbit	1,888	2,056	2,203	3,085	3,786
Tinned pigmeat	242	536	375	29	256
DAIRY PRODUCTS AND EGGS	305	428	19	176	62
Eggs	267	375	—	—	—
FISH	531	612	144	117	689
Frozen Prawns	487	577	108	23	477
CEREALS	993	471	838	1,533	875
Rice	767	284	559	1,175	304
FRUIT, VEGETABLES & NUTS	1,599	1,478	1,544	2,149	2,295
HONEY	177	173	132	330	5
TEA	658	1,125	759	717	2,278
SPICES & COCOA BUTTER	49	82	127	492	735
OTHERS	120	91	28	75	235
Total	6,616	7,079	6,188	8,711	11,227

Raw Materials

FURSKINS, UNDRESSED	1,194	858	1,758	2,156	2,121
OILSEEDS	123	773	1,088	434	1,006
TEXTILE FIBRES	3,927	2,269	4,782	8,423	9,531
Silk	1,325	688	692	1,119	836
Wool	688	61	969	1,019	1,035
Cashmere etc.	1,634	887	2,195	5,386	6,759
Cotton	3	297	394	226	421
Flax & tow	—	202	245	216	162
MAGNESITE	214	140	126	—	220
TALC	214	235	277	333	373
TUNGSTEN	757	52	484	947	971
BRISTLES	3,206	4,539	3,549	4,185	4,582
RAFFIA & PLAITING MATS	249	242	286	331	513
COTTONSEED OIL	459	110	526	196	666
OTHERS	719	818	853	1,520	2,058
Total	11,062	10,036	13,729	18,525	22,041

Chemicals

PEPPERMINT & OTHER ESSENTIAL					
OILS & RESINOILS	709	421	442	1,212	3,366
CHEMICAL ELEMENTS & COMPOUNDS	771	948	688	835	2,193
ROSIN	2,043	983	908	1,383	2,496
GELATIN	183	231	225	269	666
OTHERS	735	654	295	438	1,651
Total	4,441	3,237	2,558	4,137	10,372

Manufactures

DRESSED FURSKIN	1,110	915	1,191	1,597	2,210
PLYWOOD	323	224	337	538	395
PAPER	166	187	232	210	603
TEXTILE YARN, FABRICS + MADE-UPS	3,507	4,282	5,201	6,560	9,795
Greycloth	1,195	2,142	2,281	2,949	5,693
Silk fabrics	280	212	452	515	415
Hat shapes + bodies	201	195	251	280	269
CARPETS	1,449	1,292	1,683	1,927	2,501
GLASS TABLEWARE	184	323	242	282	291
HOUSEHOLD CHINA	127	163	124	236	147
MACHINERY	117	74	200	629	1,306
TRAVEL GOODS & HANDBAGS	285	233	307	317	581
GARMENTS	399	467	553	942	729
FOOTWEAR	13	133	113	105	66
SCIENTIFIC INSTRUMENTS	54	70	158	409	224
BASKETWORK	499	479	536	845	1,280
OTHERS INCL. TOYS	3,104	2,386	2,147	1,737	2,685
Total	11,337	11,228	13,024	16,334	22,813
MISCELLANEOUS	82	91	89	127	228
GRAND TOTAL	33,538	31,671	35,588	47,834	66,681

Source: UK Department of Trade

TWENTY YEARS OF CHINESE

£'000	1955	1956	1957	1958	1959	1960	1961	1962	1963
0 Foodstuffs	2,756	2,320	3,609	6,449	2,972	4,075	2,206	1,373	2,026
1 Beverages & tobacco	—	—	—	—	—	—	—	—	—
2 Raw materials	5,659	5,982	5,547	5,344	10,886	12,291	7,498	6,518	9,831
3 Mineral fuels	—	—	—	—	—	—	—	—	—
4 Oils & fats	1,028	1,069	739	678	268	987	390	326	368
5 Chemicals	1,459	1,586	1,487	1,863	931	619	665	933	996
6 Manufactures by material	1,300	1,592	2,843	4,307	4,365	6,270	19,759	13,779	4,529
7 Machinery	—	—	—	—	—	—	—	—	15
8 Other manufactures	—	—	—	—	265	478	340	239	746
9 Miscell.	—	—	—	—	—	—	—	—	2
TOTAL	12,302	12,549	14,225	18,541	19,688	24,719	30,858	23,169	18,513
% change on year		+2%	+13%	+30%	+6%	+26%	+25%	-25%	-20%

Source: UK Department of Trade, London.

NB. Statistics before 1965 were not set out in the SBTN form, and are not completely comparable; the chief difficulty being the precise allocation for 1955-64 of manufactures between divisions 6 and 8, for which an educated guess is made.

and East Germany's £600. No wonder the buyers say they could take more but for the quota restrictions.

Exclusives and Labeling

Canned foodstuffs have been built up nicely, both in specialty and general lines, and here the Chinese have deviated from their normal preference by appointing a sole agent and giving the firm the franchise for the past twelve years. Ordinarily they appear to prefer a free trade operation in which they are not committed to any one buyer. But in this case there were obvious advantages in working together with an import house which was part of a larger group involved in export to China as well as import, and which could market Chinese cans alongside allied products from other suppliers within its own selling company serving the entire UK market. Where an importer asks for an agency in return for his outlay on market promotion, the Chinese experience a conflict. One answer is for them to supply other buyers with the same or a similar product under a different brand name.

A problem which the Chinese are now grappling with is that of a buyer's labeling. It is being pointed out to them that this is a feature of the British market, and that they could push their sales much higher

if they would supply canned foodstuffs with the buyer's label. Relabeling in the UK is expensive for the importer, although some cases of this are known. Perhaps, the Chinese prefer not to indulge in what might be considered by some within China as a "colonialist" or "economic-imperialist" practice, but the belief in London is that they will gradually come round to accepting it. Their own brand names can become accepted and established in the British market as the Shanghai May Ling label testifies, but some of the other labels which use English rather than Chinese words have not become so readily accepted. The moral here may be for the Chinese to acquire more self-confidence in their own brand selling, while at the same time being more flexible towards chain-store buyers who insist on their own labels.

In general Chinese factories seem ready to go some way to meet British buyers' requirements. "Everything depends on actually getting to the factory itself," one importer said, "and explaining your problem to the designer and the workers there on the spot." Liberty's, the Regent Street department store, decided to celebrate its centenary this year with a Chinese display, and bought some gold jewelry on which the soldering was of inferior carat. The buyer explained the problem on his next visit and is satisfied that a better

SALES TO GREAT BRITAIN

1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
1,820	4,376	6,417	5,853	7,380	6,569	6,616	7,079	6,188	8,711	11,227
—	—	4	7	48	18	9	21	11	81	75
13,622	14,830	13,884	12,153	12,464	14,606	10,567	9,883	13,146	18,078	20,909
—	1	45	75	23	14	43	34	31	10	—
579	2,072	3,449	1,509	678	531	495	153	583	447	1,132
1,285	1,810	2,497	2,266	2,399	2,873	4,441	3,237	2,558	4,137	10,372
6,122	5,201	5,838	5,956	9,171	11,140	9,386	9,047	10,219	11,831	16,814
157	167	53	49	71	55	117	74	200	629	1,306
974	1,218	1,540	1,727	2,011	1,880	1,834	2,107	2,605	3,874	4,693
—	23	61	32	28	33	30	36	46	36	152
24,599	29,698	33,787	29,626	34,274	37,719	33,538	31,671	35,588	47,834	66,681
+33%	+21%	+12%	-12%	+16%	+10%	-11%	-6%	+12%	+34%	+39%

solder will be used in future.

One British buyer tried in vain to persuade Chinese rosewood furniture producers to scale down their measurements to fit typical British living rooms, so that today you can see a vast display of such "Chinese" furniture in one of London's major department stores which is actually made in Hong Kong.

One impression of the Chinese approach to marketing is that they prefer to leave as much as possible to the importer. The London silk goods dealers are urging them to advertise as the Japanese do, and two sales promotion delegations have recently come from China to investigate the current slackness of the market. There is an organization sponsored by Peking which promotes the use of silk across Europe, but when it comes to national advertising in Britain itself, China has not participated so far. This, in turn, means that for a new product to be launched it is a prospective importer who has to busy himself, not the Chinese Commercial office. All the success stories, from rabbits to guitars, owe their origins to a British initiative.

Pricing and Supply

Pricing is the crucial question over which the Chinese retain complete control, and about which

there are mixed opinions among British importers. On the one hand they point to cases where unrealistic prices have led to a loss of the market. This happened with silk and teak a couple of years ago. But, such mistakes are usually rectified within a reasonable period. Most of the 5,000 tons of tea which China is now supplying annually is black tea competing with comers from all over the southern hemisphere and it hovers between 1% and 2% of the total UK import market. In 1973 it fell below 1%, but since then, with more competitive prices, it has stayed at around 2%. The difference can add up to £1 million or more in annual earnings.

Irregularities in supply can also upset the UK importers. This happened with rabbit meat two years ago, when the Chinese sent larger quantities than the market could bear, so that the price was forced down. Wool shipments are particularly singled out for criticism, and it is said China could earn more by being more consistent. In 1971 only £61,000 worth was sold to the UK, against figures of between £3 million and £4 million in the mid-1960's. Now annual wool shipments have settled down at the 2000 ton or £1 million mark.

It is understandable that some primary products are at the mercy of the weather and cannot be guar-

anted: it is perhaps remarkable that China has been able to maintain a rice export at all to Britain throughout the 1960's and 1970's, not so remarkable that it has varied in the past decade from a 1968 high of £1.5 million worth to a 1974 low of £304,000. Vegetable oils have ranged from £3.4 million in 1966 to only £153,000 in 1971—a difference of 20-fold. Groundnut sales fell from £713,000 in 1972 to £37,000 in 1973, and then recovered to £333,000 the next year.

Tin and other non-ferrous metals hit £448,000 in 1974 after four successive years in which they averaged only £30,000. Tungsten, for which China currently holds about 10% of the market, worth almost £1 million, slumped to 30 tons (£52,000) in 1971. Diamonds made an entry in 1968–69 to earn £5 million in those two years, but have barely been heard of since. To some extent these discrepancies follow fluctuations in the British market itself. But they also reflect difficulties or conscious changes on the Chinese side which prevent them from establishing a really sound and steady income.

It is, of course, a long haul from Chinese ports to London, and packing is sometimes a problem with such commodities as glassware. The standard of protection seems to vary with the factory of origin, and some buyers report a high breakage rate.

Quota restrictions do not apply to the majority of manufactured items from China, and it is difficult not to register a feeling of disappointment over some of them. Carpets, for which London is a world centre, have climbed fairly steadily, falling back in the early 1970's from the £1.8 million level set in 1969, but up in 1974 to £2.5 million. For knotted carpets China that year was the fourth biggest foreign supplier after Iran, Pakistan, and Afghanistan, shipping 82,000 square metres worth £1.9 million. The Chinese unit value of £23.17 per square metre was lower than Iran's £40.37, Turkey's £35.71 or the Soviet Union's £27.42, but higher than Pakistan's £20.65 or Afghanistan's £17.97.

Tissue paper is coming along nicely at £400,000 in 1974. China sold more guitars to the UK that year than any other foreign supplier except Japan—though for a lower unit value, only £1.80 against Japan's £10.30, the US's £62.50, Italy's £9.09, Spain's £5.40 and Taiwan's £5.56.

But other performances are poor. Given China's situation, given British market demand and given what competitors like Taiwan and Hong Kong have achieved, it is surprising that in 1974 China could sell only £83,000 worth of radio parts, £634,000 of bicycles and other transport equipment, £479,000 of musical instruments, £94,000 of tape recorders and £151,000 of toys. These kinds of items are fashion-conscious and presentation conscious, and it is generally agreed that Chinese transistor radios, to take a typical example, are too old-fashioned in their styling to compete with those from Japan and Hong

Kong. But these are logical growth lines for Chinese exports and the nettle has not yet been grasped in Peking.

Arts and Crafts Display

Some displays are organized and supported by the Chinese Commercial Office in London. Arts and crafts were shown for two weeks at the Olympia International Handicrafts and Do-It-Yourself Exhibition in London in August–September 1974, sponsored by the CCPIT, at the invitation of the organizers and the Sino-British Trade Council of the UK. A trading group from Kwangchow was in attendance to respond to importers' inquiries, not only on the goods exhibited but on other handicrafts, textiles, etc. Interestingly, this was a regional display organized by the Kwangtung authorities, and the leader of the visiting team was Mr. Tso Pen-pin, Head of the Kwangtung Province Foreign Trade Bureau. It covered 15,000 square feet. Another display of a similar kind is in planning for 1976.

"We have smoothed the Chinese out in dealing with a market like this," one veteran dealer in London commented, "and now the Americans will benefit from it. Our importers in Britain suffered many losses in the early days in the belief that they would make up for them later." It has taken years to establish the rapport and mutual understanding needed to resolve claims and disputes—many of which were written off by UK pioneers in the 1950's in the long-term interest. The Chinese sense of honor, which so often inhibits them, for example, from changing an agreed price even when the market turns in their favor, has assisted this.

The overall conclusion is that the Chinese market in Britain has grown higgledy-piggledy, thriving on opportunism and the accidents of importer-activity rather than steady and far-sighted cultivation. The obstacles of quotas and tariff disadvantages have not, on the whole, been met head-on but have been officially ignored as too distasteful to negotiate. Agencies have been limited to special cases, and a sticky line is sometimes foisted on a new buyer as part of a package for which the bait is an export contract to China. On the other hand, the Chinese government and its export corporations expect UK importers to do all the work involved in promoting new products, organizing exhibitions and generally smoothing the way for higher Chinese sales.

The authorities at the Chinese end are highly bureaucratic, although once a buyer can make meaningful contact with the supplying factory many of the difficulties are resolved. Problems do arise and sometimes involve protracted delays, but in the end there are very few importers in London who will not volunteer that the Chinese are "nice to do business with."

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LEGAL RESOURCES FOR TRADE WITH CHINA

Introduced by Eugene A. Theroux*

A corporate lawyer once observed that his practice was rewarding when the economy was healthy, and it positively flourished when things got worse. The ability to perceive and fill a need—where none may be readily apparent—is a hallmark of the legal profession.

It is thus not altogether surprising, perhaps, that China, a country which has liberated itself from lawyers, has attracted so much attention from the American legal community.

Many companies interested in doing business with Peking have found themselves more inclined to work closely with counsel on business strategy for China than they are for other countries having a body of business law and active commercial practitioners. The reason is simple: doing business with China can be legally complex.

Importers have already found themselves more deeply into the decisions, regulations and procedures of Federal agencies than they might have foreseen. The decisions and rules of the Federal Trade Commission, the Bureau of Customs, the Treasury, the Tariff Commission, the Food and Drug Administration and the USDA, among others, promise to play an important role in US trade with China.

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Exporters have found that Federal export quotas, export licensing and tax planning have been among the important subjects for consideration in development of business with Peking.

Fundamentally, of course, no exporter or importer can fail to take into account his potential remedies and liabilities on shipments between China and the United States. And thus the terms, the language, the meaning, the interpretation, and the enforcement of contracts between American firms and China's trade agencies are of enormous importance. Ordinary common law or civil code contract principles and practice, familiar to the American business firm, have unusual application, if any at all, to commercial agreements with China.

The Chinese have a deserved reputation as ingenious conciliators of contract disputes, but often even the best of intentions cannot reconcile opposing claims, and a third party arbitrator or dispute resolution tribunal becomes necessary. But how, where, and to what extent may US firms resort to arbitration or lawsuits over contested contracts?

Which contract terms familiar to US business—*force majeure*, liquidated damage and secrecy clauses—are acceptable to the Chinese, and which are not? What about licensing, joint ventures, transfer of

know-how and other forms of doing business? What about patent and trademark protection?

The contracting party on the Chinese side differs as significantly as the contract instrument itself. In Peking, the American confronts a trading apparatus not only unlike those of market economies, but different in important respects from the non-market economies of Eastern Europe and the Soviet Union.

Within recent years, numerous articles and several books have appeared which help answer these and other questions on doing business with China. The following bibliography is perhaps the most comprehensive assembled to date on these subjects. Most of the articles, law journals and books listed are available to members at the library of the National Council. We are grateful to Clark T. Randt, Jr. an associate at Millbank Tweed and law student Sally J. Winder for the preparation of this bibliography:

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Liu Shao-shan, of the CCPIT's Legal Affairs Department, 1975. Photo: Mark Godfrey Magnum/Fortune.

THE LEGAL DEPARTMENT OF THE CCPIT EXPRESSES THANKS TO THE NATIONAL COUNCIL

Our ref. CL-L/75/575

Mr. Walter Sterling Surrey
1156 15th Street, N.W.
Washington, D.C. 20005
U.S.A.

Peking, 20th Oct., 1975

Dear Mr. Surrey,

We wish to express our thanks for the cordiality and hospitality given by you and other friends of the National Council for U.S.-China Trade to Mr. Liu Shao-shan, Deputy Director of our Department during the visit of the Delegation of our Council to the United States of America. Through the discussions between our two sides during the visit, both of us have obtained further mutual understanding in the matter of trade laws. It is hoped that our two sides will continue our exchange of information and views, and make common efforts for the promotion of Sino-American trade and friendship between the peoples of our two countries in the spirit of Sino-American Shanghai Communique.

The trade law materials and books you instructed Mr. R. G. Hofker to airmail us have been received, for which we wish to thank you again.

With best regards.

Legal Affairs Department

JAPANESE COMPANY OFFICES IN PEKING

The last issue of UCBR featured an account of company offices in Peking, the third in a continuing series on doing business in China's capital (Vol. 2, No. 6, pp. 28-32). This note by UCBR's Tokyo correspondent, Alistair Wrightman, briefly describes the experience of Japanese firms with offices in Peking, which number, according to the recent statement of a Chinese official, about seventy.

There are currently four Japanese organizations registered officially in Peking. These are Japan Air Lines (Room 6078 in the Peking Hotel), the Japan-China Association for Economy and Trade (San Li Tun office building in the Chao Yang District 2-22 in Peking), The Association for Promotion of International Trade, Japan, Tokyo Main Office (Kokubosoku) (Room 6069 Peking Hotel), and The Association for Promotion of International Trade, Japan, Kansai Head Office (Kokubosoku) (Room 4063 Peking Hotel). These are not temporary offices.

However, all other Japanese organizations which claim to have office space in Peking must admit that their arrangements are completely temporary. As a result of the recent great influx of businessmen and officials from East and West European countries and an increasing number of visitors from African nations, there is an almost critical shortage of hotel rooms in Peking.

So, although JAL and the Japan-China Association were allowed to open offices there by the Peking Government in late 1973 and the two Kokubosoku organizations have been there for many years now, ordinary Japanese companies have experienced difficulties in keeping hotel rooms in the Chinese capital. Often they must shift from the Min Dzu Hotel to the Hsin Chiao Hotel and back again. The Peking Hotel is a new and larger building. It is mainly used for large government missions, officials and trade and economic teams visiting China. The hotel's rates are about double those of the Hsin Chiao Hotel.

Periods of Vacancy . . . and No Discounts

There seem to be about 350 Japanese trading and manufacturing companies involved in Sino-Japanese

business at the moment. Yet, only about 70 of these firms have some sort of office in Peking—mainly in the Hsin Chiao Hotel, but a few are in the Peking Hotel at present. Nevertheless, not all of them manage to keep someone in their offices at all times. Although the hotel rooms are being paid for, there are periods when no one from the companies is in residence.

Communication from Peking with the home offices of the Japanese firms is generally done by telephone. There are post offices in the various hotels, of course, and air mail requires about three days. Surface mail usually requires around 30 days. Overseas telephone calls are accepted through the front desks or switchboards of the hotels. The rate is US\$8 for the first three minutes and US\$2.70 for each additional minute.

Cables are accepted both at the hotels' front desks and at the cable offices. Telexing can be done from public booths in the central post office in Peking. Some of the Japanese firms which have managed to keep a reasonable number of personnel at their hotels have Telex tape cutting facilities in their rooms.

Hsin Chiao Hotel and Peking Hotel's old building charge an average of about US\$17 per day for each room. The Peking Hotel's new building, on the other hand, presently (late 1975) charges approximately US\$25 per day for standard doubles (RMB50), \$50 for suites and \$150 for deluxe suites. Usually there is no discount for a prolonged stay.

Name Plates at the Hsin Chiao

It is the Hsin Chiao Hotel where most visiting businessmen with authorized stays of between three and six months are obliged to stay in most cases. During their stay, on their own initiative, they may put up their company name plate. Many of the Japanese businessmen place their firm's name on the hotel door to their rooms.

However, many companies disclose that the rotation of their staffs is so frequent that it is not unusual for the room to be changed. In most cases, the Japanese corporations find that, if their reason for sending a particular representative to Peking has ended, regardless of whether they still have an authorized stay of a few more months, the Chinese ask them to leave. The situation is extremely delicate at all times, apparently.

The industrial exhibition sites in Peking also are booked up completely until the end of 1976. As a general rule, visitors from abroad must, when applying for a visa to China, have an official invitation issued by Chinese authorities. The invitation states in no uncertain terms just why the person applying wants to visit China and approximately how long his tasks will require him to stay. Apparently these requirements do not apply to those from Japan who represent the four organizations already mentioned above.

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EXPORTER'S NOTES

ENERGY

US Firm Says No to Chinese Oil . . . A major US oil company recently turned down an offer from the China National Chemicals Import and Export Corporation to purchase Chinese crude oil. The company, which has been buying kerosene and diesel from the Chinese for distribution elsewhere in Asia, was negotiating with representatives of Sinochem in Hong Kong. According to a company spokesman, the Chinese offer was declined because of quality problems with the oil. He could not say whether the oil would have been brought to the US, or whether it would have been distributed in Southeast Asia. As far as is known, this is the first time a US firm has entered into negotiations to buy crude oil from the Chinese. In 1975 China sold about 6 million tons of crude to Japan, with smaller amounts going to the Philippines as well as Vietnam and North Korea. Australia is expected to begin buying Chinese petroleum in the future. **Oil Warning. . .** At a recent conference, jointly sponsored by the Johns Hopkins School of Advanced International Studies and the National Council, Selig Harrison, author of a widely cited study on the Chinese petroleum industry, suggested that China's short and medium term oil exports will be modest. Harrison said that oil is gradually replacing coal as China's primary energy source, and that the scope of this transformation effectively limits petroleum exports. If Harrison's analysis is correct, exporters of capital equipment who had counted on Peking's petroleum earnings as exchange for their goods, may have to rethink China marketing strategies. Observers suggest that without large oil reserves, China's overseas shopping list may have to be pared. The only alternative, they say, is for Peking to approach European or Japanese capital markets, a step which the Chinese have taken with reluctance in the pasts. Under-scoring Harrison's comments was the recent publication by the CIA of a study predicting that China's 1980 oil exports will be limited to 27-33 million tons, far less than the 50 million tons predicted by many. To back up their contention, the Agency points to quality problems of Chinese crude, high delivery costs to Japan occasioned by China's reliance on uneconomically small tankers, and the continuing Japanese trend towards adapting their refineries to Middle Eastern rather than Chinese oil. **US Equipment**

Sales Up However . . . Whatever the nature of China's oil export strategy, the last several months have seen a large amount of activity on the oil petroleum equipment sales front there. US firms appear to be the big winners in a number of important contracts recently announced. In one of the most significant oil related transactions ever involving a US oil equipment manufacturer based in Texas has sold Machimpex approximately \$23 million worth of oil exploration equipment, with a computer component provided by Interdata of Oceanside, New Jersey. Another oil related sale was recently registered by Cameron Iron Works of Houston. The Texas company will provide China with well heads and gate valves, worth less than \$1 million. According to the firm, the equipment will be delivered over a 14-month period, which began last December. One other US firm also concluded an oil equipment deal with the Chinese in late 1975. The size and nature of the transaction was not announced. **Coal-Emphasis in the Fifth Plan? . . .** In another energy-related development, the national coal conference convened in Peking last October pointed out the continuing importance coal will play in China's economic development, despite increasing reliance on oil as an energy source. More than 5,000 cadres, workers, technicians and researchers attended the conference, which took place immediately after a similar national gathering on agriculture was held. Presumably both meetings were part of preparations for the promulgation of the Fifth Five-Year Plan, which went into effect this January. According to reports, the coal conference emphasized development of small and medium scale mines to service the needs of local iron and steel, fertilizer, and agricultural machinery industries. Many observers have cited the coal sector as one of China's principal economic bottlenecks. At the conference little or no mention was made of expanding levels of machinery acquisition overseas.

PRCLO VISITS

To Bethlehem . . . One of the largest steel plants in the world—Bethlehem's Sparrows Point facility near Baltimore recently played host to a group of 20 officials from the PRC Liaison Office in Washington. The tour, arranged by the National Council, was one in a continuing series of trips to American manufacturing facilities made by the Chinese

PLANNED FOREIGN EXHIBITIONS IN CHINA, 1976

Country	Type of Exhibition	Place	Date
France	Scientific Instruments	Peking	March 9-27
Yugoslavia	Machine Tools	Peking	April
Japan	Pollution Prevention Apparatus	Peking	September 2-15
Japan	Hydraulic and Pneumatic Equipment	Peking	September
Sweden	Transportation Equipment	Peking	October



Ted Simmons, manager of the Holly Farms facility in Snow Hill, Maryland, makes a point to Tung Chih-kuang of the Chinese Liaison Office. At right is Jen Chih-chieh, also of the Liaison Office.

diplomats. Among the highlights of the Sparrows Point visit were inspections of one of the plant's Basic Oxygen Furnaces and a plate fabricating installation. The group was escorted by a Bethlehem guide as well as an engineer who offered technical explanations at various points along the way. The Bethlehem visit, undertaken at the Chinese request, underscores what may be Peking's developing interest in US steel technology and products. The PRC is reportedly in the market for seamless pipe and oil drill casings. **Shaft and Strip Coal Mines . . .** Four Liaison Office officials, led by Commercial Counsellor Chang Tsien-hua, made another recent industry visit under National Council auspices, this to the Philadelphia-based Westmoreland Coal Company's Big Stone Gap, Virginia facilities. The group which also included Tung Chih-kuang, Jen Chih-chieh, Li Wen-chun and George Driscoll, Director of the National Council's Business Advisory Services, inspected both shaft and strip mines, as well as taking a short detour to visit a local dairy farm. For the Chinese one of the main points of interest was seeing modern coal mining equipment in action, including a Lee Morse continuous miner. The group spent the night at Big Stone Gap in the Westmoreland guest house before returning to Washington aboard a company airplane. **And a Chicken Farm . . .** A third PRCLO visit took place in late December under the auspices of China Consultants International when Tung Chih-kuang, Jen Chih-chieh and Yu Jen-chuan inspected the Holly Farms industrial chicken farm on the Eastern Shore of Maryland and Virginia. The facility is equipped with an egg-to-broiler processing capability and makes available some 120,000 chickens to supermarkets on a daily basis.

NMTBA TO PRC

And Finally to China—A 19-member delegation to China from the McLean, Virginia, based National Machine

Tool Builders Association (NMTBA) recently became the first industry organized government approved US mission to the PRC. Led by James A. Gray, Executive Vice-President of NMTBA, the bulk of the group arrived in Peking on November 17 for a ten-day stay in the Chinese capital at the invitation of the China National Machinery Import and Export Corporation (MACHIMPEX). The highlight of the visit was a four-day NMTBA symposium which attracted engineers from Chinese end-user institutions and MACHIMPEX as well as lecturers from PRC technical universities. The American visitors also had an opportunity to visit a number of factories in the Peking area. One visitor said he was favorably impressed with Chinese machine tool technology, comparing it to the level found in Japan in the early 1960s. NMTBA has been in contact with the Chinese since 1971. A formal proposal for the symposium was made to MACHIMPEX in August 1973. The National Council for US-China Trade supported the mission, including during discussions with the CCPIT delegation that visited the US in the fall of 1975. Along with Gray, the NMTBA delegation included Jesse Maffuid, International Marketing Director, NMBTA; C. R. Stroupe, Chairman, Amocut Inc.; Jerome Price, Director, Marketing, Industrial Controls Division, the Bendix Corp.; Charles F. Carter, Jr., Director, Machine Tool Development, Cincinnati Milacron; Ralph E. Cross, President, the Cross Co.; John R. Danly, Vice-President, Danly Machine Corp.; Paul S. McCaig, Manager of International Sales, Ex-Cell-o Corp.; Willis F. Couts, Vice-President of Marketing, Fellows Corp.; Frank J. Austin, Executive Vice-President, Giddings and Lewis, Inc.; Graham E. Marx, President and General Manager, the G. A. Gray Co., a subsidiary of Warner and Swasey; John R. Joerger, Vice-President, International Sales, Kearney and Trecker Corp.; Henry M. Frechette, President, Kingsbury Machine Tool Corp., and President of NMTBA; Leland H. Happel, Director of International Sales, Landis Tool Co.; Kenneth D. Garnjost, Corporate Technical Vice-President, Moog, Inc.; Wayne R. Moore, President, Moore Special Tool Co., Inc.; Wayne E. Zahn, President, National Machinery Co.; Walter Baturka, President, Universal Engineering Division, Houdaille Industries; and William W. Clarke, Director, China Division, Bureau of East-West Trade, U. S. Department of Commerce.

SALES

Plant Exports Plummet . . . Sales of turnkey plant to China in 1975 took a dramatic tumble from levels of the two previous years, falling to an estimated \$142.6 million. In 1973 China's purchases of whole plant, paced by the Japanese-German steel facility at Wuhan, totaled \$800 million. In 1973, the figures stood at \$1 billion, as Peking went into the plant market for the first time since before the Cultural Revolution. Most analysts say that strapped foreign exchange reserves are the major factor in Peking's reduced schedule of 1975 plant deals. Prospects for 1976, they say, are unclear and will likely be related to Chinese willingness to enter into medium and long-term financing arrangements with suppliers. On the positive side is the belief—held in some circles—that the initiation of the Fifth Five-Year Plan this past January gives end-users new budget allocations to work with and may result in a spurt of purchases over the next 18–24 months. The 1975 sales, like

COUNCIL TAKES CHINESE UNDERGROUND



In the Mine: Bullitt Mine, General Mine Foreman, Fred Lawson, explaining the use of bolts to support the mine roof to Chang, Li, Jen, T'ung and Driscoll.

At Westmoreland: Dan Howard, General Manager, Stonega Division, Westmoreland Coal Company (3rd from right) and McLynn Sharpe, Mine Manager, Bullitt Mine (2nd from right) explain the flow of coal from Bullitt Mine to the Cleaning Plant and thence to the Transloader. The Chinese are from left, Jen Chih-chieh, T'ung Chih-kuang, Li Wen-chun and Chang Tsien-hua. George Driscoll of the National Council looks on at right.



those of 1973, demonstrated major interest in the petrochemical field. The following table catalogues known turn-key plant transactions last year. According to US government sources, approximately \$81 million worth of company confidential sales took place in addition to the \$60 million listed **New U.S. Petrochemical Exporter . . .** Phillips Petroleum of Bartlesville, Oklahoma, has joined the ranks of American China traders in the petrochemical field with a sale of polyethylenes to the China National Chemicals Import and Export Corporation. A company spokesman said that the volume specified in the initial transaction was small and that consummation of the deal was contingent upon successful testing of sample material. The spokesman added that Phillips hopes this initial contract with Sinochem will result in a growing China petrochemical business for the company.

MISCELLANEOUS

US Exports More than Predicted . . . The November figures for US exports to China are in, and the 11 month total of \$265.4 million means that total US shipments to the PRC in 1975 will surpass earlier Commerce Department projections. US export volume to the PRC in November reached \$36.6 million, \$15.5 million of which was aluminum ingots, reflecting an unexpected late season bonus in this year's Sino-American trade picture. Cotton exports accounted for \$2.4 million; iron and steel scrap totalled \$3.5 million; and most of the remainder was taken up with equipment for the M. W. Kellogg ammonia plants. With an additional \$15-20 million in aluminum ingots scheduled for December shipment, total 1975 US exports in China should reach the

\$300 million mark, about \$50 million more than predicted. **Survey Finds China Negotiators Found Tough and Well-trained . . .** Foreign trade representatives of the People's Republic of China are apt to be tough, well-trained, reluctant to reveal their titles, and disposed towards making group rather than individual decisions. Those were just four of the conclusions drawn from a 38-question survey of the attitudes of American China traders towards doing business with the PRC. Of the 218 executives contacted, say the survey's authors at the University of Toledo's Department of Marketing, 71% responded. Among the survey's other findings was an almost uniform lack of concern that China would flood world markets with low-cost labor intensive products. By a lesser, though still impressive, margin those polled thought the Chinese economy was still some ways from manufacturing the types of goods that could successfully compete with the products of US firms in the international market-place. On trade procedures questions, respondents were overwhelmingly in agreement with the contention that "it is essential to specify the nature of inspection tests and product standards in contracts" with the Chinese. Most of them also felt that Peking prefers that goods traded be shipped and insured by its own companies. According to the survey, US businessmen not only feel that China takes a longer time to respond to their proposals than do European firms, but that more than the usual amount of interaction is required before an atmosphere of trust is created. Further information on the survey can be obtained from James A. Brunner, Chairman of the University of Toledo's Department of Marketing, at 2801 W. Bancroft Street in the Ohio city—(419) 537-2240. 完

PLANT SALES TO CHINA, 1975

Companies	Type of Plant Yearly Output Metric Tons and Technology (in parentheses) Where Appropriate	Price (\$million and equivalent)	Contract Date & Terms
Mitsubishi Petrochemical, Mitsubishi Heavy Industries, Mitsubishi Corp., Western Japan Trading	Ethylene 12,000; hydrogenation facility for cracking oil (Mitsubishi)	\$31.5 ¥ 9,000m	February 1975 Payable over 5 years on RMB basis at 6%
Nippon Seiko	Bearing plant to manufacture bearings for machine tools and rolling stock. To be constructed in Loyang Area.	\$4.2 ¥ 1,200m	April 1975
Koyo Seiko	Bearing Plant	\$5.0 ¥ 1,500m	April 1975
Linde A. G.	Benzene using pyrolysis as feedstock	\$20.0	July 1975 Start-up 1978
Ataka & Co. Nippon Sanso Ishikawajima-Harima Heavy Industries	Industrial Oxygen 35,000 m ³ /hr	\$11.9 ¥ 3,600m	November 1975: delivery Spring 1977

*See text for additional detail.

IMPORTER'S NOTES

Good news and bad news—Imports from the PRC are at record levels. But beginning January 1, 1976, the generalized system of preferences (GSP) as stipulated by the Trade Act of 1974 went into effect. Through the GSP, duty-free treatment has been extended to a variety of products imported into the US from 26 eligible developing countries and a number of dependencies, including Taiwan.

Importers of these products from GSP beneficiaries will be able to bring in their goods as designated in the 1976 tariff schedule even more cheaply than before, thus giving China even tougher competition. Just at the time that the PRC has announced the dispatch to the US of a minerals and metals delegation and a light industrial products delegation promoting sporting goods and other items, many other countries also exporting these same goods to the US, who formerly had to pay a Column 1 tariff, will not be required to pay any duty at all.

Many of China's largest imports to the US, such as tea, shrimps, rosin, and tungsten (all over \$1 million in the January-October 1975 period) and tin (\$32 million) will not be affected, but many smaller imports may suffer setbacks.

For instance, preferential GSP treatment will be accorded crude or processed bristles, an item pushed by the recent Native Produce delegation from China, and which provided the PRC with \$2.5 million worth of revenue in the January-October 1975 period. Under Column 1, the tariff was 0.75 cents per pound; for Column 2, three cents per pound. Now GSP countries won't be paying anything. Pipe tools (\$117,648 up to October 1975) and hacksaw blades (134,608 up to October 1975) are among metal items which may be on the selling agenda of the just-arrived Minmetals delegation; they are normally 11% and 5% in Column 1 respectively, and 45% and 20% in Column 2. They will now be 0% for GSP countries.

Similar bad news holds for sporting goods equipment—badminton, table-tennis and baseball equipment, all sure to be the subject of negotiating talks when the next Light Industrial Products Delegation arrives in February. Baseball mitts are usually 30% in Column 2 and 15% in Column 1—but are now nothing in the GSP column. Bamboo baskets and bags, sold by the last Light Industry delegation to visit the US in October 1975 are also on the GSP list. China will be facing fiercer competition than ever in this year's US market.

A country is excluded from GSP treatment if it is communist and does not receive most-favored-nation preference, is not a member of the International Monetary Fund and the General Agreement on Tariffs and Trade, and is "dominated by international communism." (See UCBR Vol 2 No 1 p 9).

FOODSTUFFS

Chinese Coffee? . . . The first shipment of Chinese coffee to the United States is now ready for the market. The coffee has been roasted for distribution principally to specialty shops and department stores in Washington, D. C., and New York.

LIGHT INDUSTRIAL PRODUCTS

Beware of Labels on Toys . . . Before you sign that contract for toys from China, check to see if the label is toxic. If labels are toxic, they will not make it past customs, as some importers have discovered. **Meiyou Samples** . . . When it comes to obtaining samples at the Canton Fair, the familiar answer given to traders is "meiyou" or do not have. Importers and trading companies are reluctant to buy any items for which they cannot obtain samples. Importers are envious of retail buyers who can select and order on the spot without needing samples. It is too risky for a trading company or importer to place orders on items without knowing whether there is a market for the product in the US. Sometimes it is possible to find the same item in one of the Fair's retail shops which solves the sample problem. However, there are very few retail shops at the Fair and the selections in these shops is limited. If China hopes to increase her sales at the Canton Fair, she must sell samples or at least provide price lists and up-to-date catalogues. All three are necessary for importers to market Chinese goods. **China's Best Toys to be Shown to the US Market** . . . China selected 800 toys for the New China Toys and Sporting Goods Corporation based on studies of the US toy market and FDA regulations. These toys have now arrived and are being unpacked for display and distribution. The Corporation hopes to show the toys at the New York Toy Fair at the end of February. They will also be on display in their showroom in the Fifth Avenue Toy Building. **Glove Competition from China** . . . US work glove manufacturers are seeking protection from Chinese glove imports which are selling at \$2.61 per dozen as opposed to domestic gloves which go for \$5.35 per dozen. **Bicentennial Off to a Chinese Bang!** . . . Fireworks buyers were prominent at the 38th Canton Export Commodities Fair, purchasing approximately two million dollars worth of fireworks for the Bicentennial. They received red carpet treatment, including a trip to Peking. **More Flexibility** . . . Many buyers of light industrial products at the Canton Fair found more flexibility in Chinese pricing and

A LANDMARK US-PRC INSURANCE AGREEMENT

After holding discussions in Peking, American International Group, the New York-based insurance holding company, and the People's Insurance Company of China reached reciprocal agreement on reinsurance in late November 1975. Each company has authorized the other to handle claims on its behalf. Reinsurance is an insurance that insurers sell one another to spread risk of loss among several companies. More on this agreement in a later issue of UCBR.

CHINA'S EXPORT FAIRS 1976

Chinese Feather and Down Product Fair, January 5-20, in Shanghai, a first-time event sponsored by the China National Native Produce and Animal By-products Corporation. Manufactured goods only were displayed at this fair, such as sleeping bags, pillows, mittens, and parkas. American companies were invited and did substantial business.

Chinese Fur Products Fair, January 7-20, in Peking, sponsored by the Native Produce Corporation. As with the Feather and Down Fair, only manufactured goods, such as coats and rugs, were shown. Some Americans were invited to the second annual event. (The US currently prohibits imports of seven furs from the PRC—ermine, fox, kolinsky, marten, mink, muskrat and weasel—under a law passed in 1951.)

Chinese Knitwear Clothes Fair, February 10-28, in Peking, sponsored by the China National Textiles Import and Export Corporation. A first-time event. Probably limited to Japanese companies.

Chinese Carpets Fair, February 16-25, in Tientsin, sponsored by the Native Produce Corporation. Only carpet importers have been invited, including Americans, to this second annual show. For details of previous carpet fair, see UCBR, Vol 2, No. 2, pp. 35-37.

Chinese Pharmaceuticals and Medical Instruments Fair, February 20—March 6, in Shanghai, sponsored by the China National Chemicals Import and Export Corporation. Again, American companies have been invited for this first time fair.

willingness to discuss modifications necessary to new goods for export.

MACHINERY

Rough Sledding Ahead . . . The China National Machinery Import and Export Corporation is anxious to boost its heavy machinery sales. Apart from design and functional ability, there are no facilities to service China's machinery in the US. But look for expanded efforts to increase China's machine tool sales in the US.

NATIVE PRODUCE

Tientsin Carpets Not Available at Fair . . . Carpet buyers were unable to purchase Tientsin Carpets at the Canton Fair but carpets from Shanghai, Peking, Dairen were in abundance and with improved quality and design.

Cashmere Prices Drop . . . At the Canton Fair the price of cashmere was reduced a further 20% which surprised the market. This has not led to an immediate increased demand but may mean larger orders in the future.

Furs on the Rise . . . It has been reported that the fur trading at the Autumn Canton Fair was very brisk, and sales far



Minmetals reception in Washington: Chang Yu-pin, leader of the Chinese delegation talks with members of the National Council, January 1976.

exceeded the totals realized at the Spring Fair. This was a result of more realistic pricing on most of the furs. The majority of buyers were European.

Camel Hair . . . Prices moved up here some 20 to 25% since the Spring Fair. Demand for third grade camel hair is still high. Buyers are discouraged by the price hike and claim it created an unstable market situation which is not good for developing the retail end of the market.

High Angora Demand . . . High demand for fourth and fifth grade angora has created small price increases from China.

China's Tea in Fourth Place . . . According to preliminary estimates for 1974, China is the fourth largest exporter in the Pacific Area to the United States. India still leads with approximately \$205,909 for 1974, followed by Sri Lanka, Indonesia and China. China's exports to the US were put at \$40,000.

Feathers and Down: Will China Guarantee? . . . If China can guarantee supplies, it could become one of the leading suppliers of feathers and down to the US which is the largest consumer of down in the world. In April 1975, the duty on feathers and down from China was removed and since that time imports went from zero to \$4 million in 1975. Industry circles predict that purchases from China could amount to \$20 million per year.

However, in the last few months, China has raised its prices by almost 10% and has stopped offering down altogether. Importers predict that sales of the raw material will not resume until late 1976, if then. Other predictions are that China may need the down for her domestic market or may be preparing for aggressive marketing of finished down and feather products. The results of the Feather and Down Fair held in Shanghai from January 5-20 should indicate China's market strategy. The situation may become critical as other suppliers will not be able to supply the quantity needed for the US market.

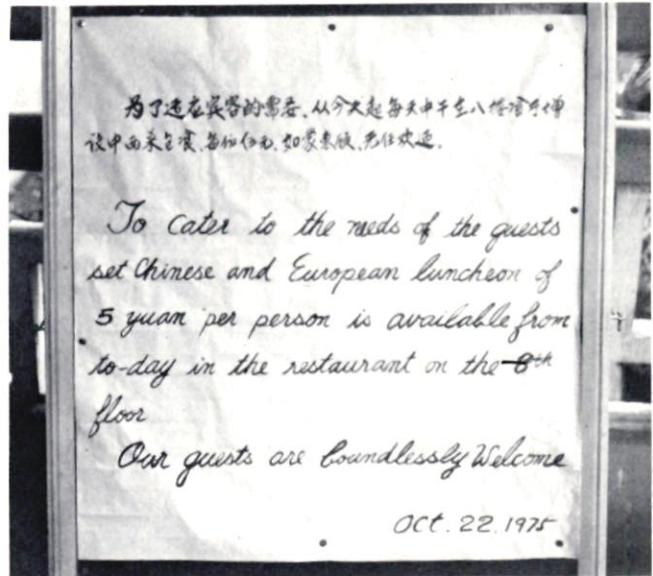
TEXTILES

Higher Price for C & F Hong Kong—US importers who import to Hong Kong to manufacture there are now quoted higher C&F prices than buyers who import to the

US. The Hong Kong cost is almost 10% higher. **The Quota Question** . . . There have been rumblings in industry circles on regulating textile trade with China. The US Government has been watching the steady increase in textile trade with the PRC. **An Impossible Market? Cashmere Sweaters** . . . The market for Chinese cashmere sweaters may be destroyed as retailers are selling the sweaters for only a few cents more than the importers are paying directly. Jobbers have been distributing the sweaters at a price below what China is now offering to importers, making it virtually impossible for importers to find a market for the sweaters. Importers are imploring China not to cut them off from markets by selling to retailers or to other buyers at prices below or equal to what they are offering importers. An importer should have priority as he is the one who will promote the sweaters and ensure the largest market. **Now, Textile Quotes by 'Phone** . . . It has been reported that US importers of textiles can obtain quotes from the China National Textile Representative in the Chinese Embassy in Ottawa. **Japan's Silk Contols** . . . While US designers and manufacturers are discovering the beauty of Chinese silks, the Japanese Government has made imports of Chinese silk fabrics, including habutai, subject to official approval effective from November 7 in order to protect domestic producers of silk linings for kimono. The Ministry of International Trade and Industry, which will approve silk imports, wants to curb this year's purchases of Chinese silk fabrics to the level of 1973, (24 million square meters). Japan's imports of Chinese silk fabrics totaled 21 million square meters between January and September of last year nearly double total imports of silk in 1974. **Meanwhile Italy Protests** . . . Italian silk growers are protesting China's low silk prices—See International Notes.

SHIPPING

China Travel Service's Shipping Role . . . Some importers with offices in Hong Kong are now using this organization to handle details of transshipment from Hong Kong



Kwangchow Fall 1975: Price Fixe

to the US. China Travel Service will handle loading and notification of arrival of goods from China in Hong Kong.

AND WEIGHTS AND MEASURES

Measures and weights you should know for your visit to China:

1 mou	—1/15 hectare or 1/6 acre
1 catty	—1/2 kilo or 1.1 lbs.
1 Chinese foot (chih)	—1/3 meter
1 picul	—50 kilograms
1 li	—1/2 kilometer

UCBR welcomes contributions to "Importer's Notes." Please write to Suzanne Reynolds at The National Council.

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Notes from KWANGCHOW—YOU'VE JUST HAD SOME SNAKE!

For the truly adventurous, the Fair in Canton offers a unique opportunity to savour the delights to be found at that city's Snake Restaurant. One is put into the proper frame of mind at the entrance, where, in a glass window case, are thriving live snakes in a replica of their native habitat.

The famous snake soups of Canton are usually made with three or five different varieties of snake, and the Snake Restaurant has a sequence of events which is quite special.

On the table is a green-colored drink—is it Chartreuse? Upon questioning, it is a mixture of Mao Tai and snake bile, to welcome you and for the first toast. The taste is bitter indeed!

The dinner then settles down to the usual routine (you think), until there appears a man with a cage

full of snakes, who proceeds to sit next to your table and invites you to select your favorite. A sure grip, and off with the head. Still writhing, the snake is neatly peeled into a metal pan, and off to the kitchen!

The usual dishes arrive—shrimps, vegetables, chicken, except the last dish of chicken with bamboo wasn't really chicken—you've just had some snake. The snake soup then appears, undisguised, and it's guaranteed to pick you up by warming the blood.

In between snake courses is a kind of fatty pork dish in a thick gravy. Wrong again, it's civet cat. How'd he get in with all those snakes?

The dinner is always a success, and as a parting memento, the menu is presented. Its design, in a flowing calligraphy, will always remind you of the meal—MS. 完



Chinese Native Produce delegation at Hercules for rosin talks last October. Front Row, L. to R.: May Li Phipps, Escort, National Council for US-China Trade; Ma Ke-chin, Member of the Trade Mission of the China National Native Produce and Animal By-Products Corporation; Han Piao, Leader of the Mission and Deputy Managing Director, China National Native Produce and Animal By-Products Corporation; W. L. Cleaver, J. E. Greer, Hercules Incorporated. Back Row, A. E. Rohl, Hercules Incorporated; Wu Fu-sheng, member of the mission and responsible person for forest products including fireworks; Max van Voorst, Purchasing Agent, Polak's Frutal Works, F. H. Wetzel, H. J. Haeffele, Hercules Incorporated.

ROSIN—THE AMBER LIGHT

One of the highlights of the visit to the US of the delegation from the China National Native Produce and Animal By-products Import and Export Corporation was a reception in Washington, D.C., hosted by Hercules Incorporated, one of the major US importers of rosin. Later the delegation spent some time at Hercules' facilities and with other US rosin buyers. Rosin, indeed, is a prominent US import from the PRC—it has figured among the top ten imports from China almost since trade with the PRC began in 1971. But what of the future of the market for this product of pine trees and tall oil? The following note, based in part on papers presented at a recent Pulp Chemicals Association meeting, indicates that rosin, for the moment, has only the amber light.

China's prospects for continuing success in selling her rosin production overseas have taken a turn for the worse, with demand in Japan and America—the PRC's principal foreign markets—receding significantly. Only in Europe, where a recent sales visit by a delegation from the China National Native Produce and Animal By-products Import and Export Corporation apparently heightened interest in Chinese product does the picture look bright, though uncertainties plague that market as well.

China's grip on the Japanese market, visited by a Chinese Native Produce delegation in May 1975 for seventy days, for both rosin and crude tall oil increased in 1975 to 83%—it had been 70% in 1972 and 20% in 1964—but Tokyo's overall imports of the two commodities last year fell to about 42,000 metric tons, a far cry from the 120,000-130,000 ton levels reached during 1973 and 1974. This decline was primarily attributable to a restructuring of the market, as petroleum resin made sharp inroads into what previously had been untrammelled rosin territory. The quality of petroleum resin, say industry observers, has increased to

the point where it can now be substituted in many areas which previously had been reserved for rosin derivatives.

Excessive Inventories

In the US, excessive inventories have dealt China rosin sales efforts a similar blow. On March 31, 1975, at the end of the 1974-75 season, inventories totalled 283,000 drums, nearly three times higher than the previous season. As a result, the US will import no foreign rosin this season, except for what had already been contracted and could not be cancelled.

China, together with Portugal, had been exporting large amounts of rosin to the US since late 1973 when domestic supplies dried up. This new dependence on foreign product led the Chinese to raise their prices 60-80% between early 1973 and late 1974 on exports destined to the US.

In Europe, no Chinese rosin sales were registered between December 1974 and June 1975 because of over-inventory, but the mission of the Native Produce Corporation apparently resulted in several thousand tons being sold for third and fourth quarter delivery last year. Europe is the only part of the world where the Chinese rosin situation seems to have shown any improvement recently.

Long Term Prospects

Long term prospects on the continent for Peking, however, are not at all clear. Local suppliers, including Spain, France, Greece, Turkey, Poland, Belgium and Portugal will likely provide the PRC with keen competition, and the excessive inventory situation will continue to limit any new infusions of the product.

In China itself production of rosin is estimated at 500 million pounds in 1975, more than doubling 1965 output—so shrinking foreign markets mean greater supplies at home. Increasing production of paper, rubber, inks, and adhesives will doubtless consume some of this, but a permanent cut-back in export opportunities might well compel Peking's planners to reduce domestic output. 完

CHINA ECONOMIC NOTES

From Chinese Media Reports

AGRICULTURE

Cotton Floss—China's drive to eliminate the waste of cotton floss is meeting with success; the quota for the 12 months ending August 1975 was exceeded by 16% according to JPRS.

New Harvester—A rice-wheat harvester for use in hilly areas has been trial-produced by the Hsintien County agricultural machinery works, according to the Changsha, Hunan provincial service. The harvester can reap 40 mou of rice or wheat in a day and, with appropriate attachments, can also be used for small short-distance transport, felling trees, reaping green manure and threshing.

Grain—In spite of alternating drought and flooding this year, China claims its grain harvest will meet the food needs of its people, according to the November 11 *Journal of Commerce*. This success is attributed to the concentration of labor forces in the fields, reportedly totaling one hundred million. The *Financial Times* reports output in 1975 reached 274.9 million tons.

New Hybrids—The *Sino-British Trade Review* reports the development of a new, high-yielding, early ripening and late-withering variety of cotton through sexual hybridisation (Koyi No. 2). Yield from this new variety is reportedly 20-30% greater than the best of the most popular varieties. A new cereal, the octoploid triticale, has also been developed through the artificial crossing of bread wheat and rye by means of allopolyploidy. This new species is said to be especially adaptable to the aridity, alkalinity or low temperatures prevalent in some parts of China.

Agriculture Mechanization—97% of the farmland around Shanghai is now irrigated and drained by machinery; 88% of the plowing is done by tractor; and spraying, threshing and processing have also been at least partially mechanized according to NCNA.

Tobacco—More than 60 counties are now growing tobacco in Yunnan Province which reaped a harvest in 1975 30% greater than in 1974—an all-time high.

ENVIRONMENT

Pollution and Public Health—The third quarter issue of the *Economic Reporter* contains a report that China's efforts to control and prevent environmental pollution has had a considerable measure of success in improving public health as well as the environment. The annual death rate has been reduced from 18 per 1,000 in the early fifties to 7.6 per thousand in 1972.

Coal Dust Filter—China has developed a fibreglas bag dust elimination system for plants powered by coal furnaces. The new system has achieved an efficiency rate of 96% according to a JPRS report.

MANUFACTURING

Rare Earth Metals—The *Hong Kong Standard* in a dispatch from Peking reports that China's development of its rare earth metals industry has made rapid progress since its initiation in 1958. 1974 output was six times that of 1965.

Bicycles—The modernization of the 39-year-old bicycle works in Tientsin has resulted in greatly improved production. According to NCNA, output for 1974 totaled 1,000,000 as compared to 600,000 before the renovation began. The report also states a new factory with a capacity of only 400,000 would have cost four times the cost of the modernization.

New Grinding Wheel Factory—A new grinding wheel factory has gone into full operation in Kweichow Province. The factory is Chinese designed and constructed and, according to the NCNA report, requires 56% less investment and half as much building space as similar foreign designed factories. The factory has 360 sets of machinery and utilizes a tilting furnace on the order of a steel-making converter. The tilting furnace assures continuous production, mechanized operation and low consumption of electricity, all of which contribute to an hourly production considerably greater than that of stationary furnaces.

Light Industry Production Up—According to the July-September *Economic Reporter*, output for 37 of the 39 light industrial products listed in the plan of the Ministry of Light Industry for the first six months of 1975 is ahead of 1974 with 28 products reflecting increases ranging from 10 to 37%.

OIL AND GAS

New Refinery in Canton—A new oil refinery and petrochemical complex is being built in Whampoa area of Canton. The new facility is expected to produce synthetic fibres—a major priority in the next Five-Year-Plan as China's cotton lands are limited and diverted to the production of grain. The refinery is reportedly to be fed by a new oil field in Nanhai County. Although Chinese officials have not disclosed the size of the new field, some sources have indicated the field is larger than Taching.

Oil Production—The October issue of Britain's *Petroleum Economist* estimates China's oil production so far this year is 24% greater than last year with no signs of slackening. 1974 output reached about 80 million tons, 10 times the 1965 production of 8 million tons.

SCIENCE AND TECHNOLOGY

Solar Development—The Lanchow, Kansu provincial service reports success in the development of solar stoves, solar water heaters and sunlight therapy. The report claims

a rate of cure of 40% in the solar treatment of arthritis, neuralgia, after-effects of poliomyelitis and other diseases, when used in conjunction with herbal medicines and massage. Substantial improvement has been noted in 50% of the cases treated.

Microwave Treatment—A microwave device, effective in the treatment of inflammations such as arthritis, peritonitis and neuritis, has been trial-produced by the Chuchou municipal electronic equipment works.

Satellite Launched—China's fifth satellite was sent into orbit on December 16 according to a dispatch from Hong Kong. It was the third launched last year, all of which are believed to be surveillance satellites.

Nuclear Test—China's official news agency reported the success of another underground nuclear test on October 27.

TRANSPORTATION AND SHIPPING

Automobiles—A Japanese (JCEA) report estimates the number of vehicles presently in China at somewhere between 600,000 and 1,500,000. According to the report, automobiles are used for 30 to 35 years and, as a result, about one-third of the approximately 20 vehicles owned by the average commune are inoperative at any given time. China has been producing automobiles for more than 10 years; its vehicle production capacity is approximately 150,000 units per year, more than 90% of which are thought to be trucks.

River Travel—1100 kilometers of the Chinsah River are now navigable reports NCNA. In 1964, prior to the development of the river, only 60 km could be safely traveled. The development of navigation on the river, which flows along the borders of Szechwan, Yunan and Tibet, has led to expansion of industry along its banks. These industries include lumber, metallurgical, coal, power, machine-building, chemical, and papermaking. Ship-building is also a new enterprise along the river. Several small shipyards and two set up by the state build cargo and passenger ships, tugs, motor junks, cement boats and cutters.

MISCELLANEOUS

Chinese Employee Benefits—According to a report published by NCNA, employee benefits are paid from a Labour Insurance Fund into which management deposits 3% of the total payroll of the workers. On retirement (age 60 for men, age 55 for women) the state provides a pension equaling 70-80% of earned wages. In addition, they are provided free medical care and low rent housing. There is no income tax in China.

Consumer Sales Up in Peking—The New China News Agency reports sales of consumer goods throughout Peking in the first half of this year have increased 11.8% over the same period in 1974.

Large-Scale Integrations—A Japanese electronics mission to the PRC in late 1975 was shown the hitherto unreported production of large-scale integrations at China's semiconductor plant in Peking. The technological achievement approaches the world level—the Chinese LSIs have about

10,000 transistor elements; the Japanese and US counterparts have 12,000. The mission's account of this revelation, reported in the Japan Economic Journal, states, however, that the manufacturing process does not employ computers and automatic control devices and has not yet reached the stage of mass production. The initial mask pattern phase is still carried out manually.

The mission also reported the construction of a large computer prototype in Shanghai with a performance speed of 1 micro second. 完

RMB: DOLLAR RATES FROM SEPTEMBER 1975

Date		RMB:\$	US\$/RMB	Change %
September 2	Bid	1.9638	50.9216	
	Offer	1.9540	51.1770	
	Median	1.9589	51.0490	-0.07
September 4	Bid	1.9520	51.2295	
	Offer	1.9422	51.4880	
	Median	1.9471	51.3584	+0.60
September 12	Bid	1.9598	51.0256	
	Offer	1.9500	51.2820	
	Median	1.9594	51.1535	-0.40
September 16	Bid	1.9696	50.7717	
	Offer	1.9598	51.0256	
	Median	1.9647	50.8983	-0.50
September 20	Bid	1.9775	50.5689	
	Offer	1.9677	50.8207	
	Median	1.9726	50.6945	-0.40
September 23	Bid	1.9894	50.2664	
	Offer	1.9794	50.5203	
	Median	1.9844	50.3930	-0.60
October 2	Bid	1.9734	50.6739	
	Offer	1.9636	50.9268	
	Median	1.9685	50.8001	+0.80
October 14	Bid	1.9537	51.1849	
	Offer	1.9439	51.4429	
	Median	1.9488	51.3136	+1.00
October 15	Bid	1.9615	50.9813	
	Offer	1.9517	51.2373	
	Median	1.9566	51.1090	-0.31
October 17	Bid	1.9517	51.2373	
	Offer	1.9419	51.4959	
	Median	1.9468	51.3663	+0.50
October 23	Bid	1.9419	51.4959	
	Offer	1.9323	51.7517	
	Median	1.9371	51.6235	+0.50
November 14	Bid	1.9556	51.1352	
	Offer	1.9458	51.3927	
	Median	1.9507	51.2636	-0.70
November 18	Bid	1.9693	50.7795	
	Offer	1.9595	51.0334	
	Median	1.9644	50.9061	-0.70
November 21	Bid	1.9575	51.0856	
	Offer	1.9477	51.3426	
	Median	1.9526	51.2138	+0.60
November 27	Bid	1.9653	50.8828	
	Offer	1.9555	51.1378	
	Median	1.9604	51.0100	-0.40
December 1	Bid	1.9712	50.7305	
	Offer	1.9614	50.9840	
	Median	1.9663	50.8569	-0.30

Source: NCUSCT based on data supplied by the Chartered Bank.

INTERNATIONAL CHINA NOTES

BUYING REPORTS

Fertilizer Negotiations—As of the end of December, Japanese hopes for a price rise for fertilizer going to China during the January-June 1976 period were dim. According to Japanese sources, Japanese manufacturers hope to sell 700,000 tons of urea and 480,000 tons of ammonium sulphate in the period at higher prices than the first half of fiscal 1975—about \$150/ton for urea. Negotiations between the Japanese and Sinochem have been underway since last October.

Oil Equipment—The PRC purchased two ETA-design jackup drilling rigs from Robin Loh Shipyard, Singapore, according to a November 3 report. Meanwhile, Hong Kong's *Ming Pao Daily* noted on October 30 that China received its fifth supply ship for offshore drilling from Hitachi of Japan.

Japanese Steel—Conflicting reports from Japanese sources reveal that China's Minmetals Corporation has agreed to buy either 1.8 or 1.95 million tons of steel products during the latter half of fiscal 1975, at an estimated price of 50,000 yen per ton. At either of these amounts, it would be an all-time record for Chinese half-year purchases from Japan. Nippon Steel Corp Director Nobryoshi Teranishi further predicted in late October that China's steel imports from Japan for this period would surpass the 2m ton level. Although details of the agreement have not been disclosed, observers believe that the price has been set in the neighborhood of the international price level as a result of a compromise made by both countries and that negotiations will be continued with regard to cables and wires as well as over galvanized iron sheets.

Zaire Copper—November reports from Zaire predict that China will buy a substantial quantity of copper from this West African country in 1976.

Japanese Computers—Japanese sources reported in October that that country will export about \$2M worth of 25 computers to the PRC this year—double last year's amount—and about 2,000 calculators.

Aluminum from Japan—China has concluded a deal to purchase 15,000 tons of aluminum from Nippon Light Metal Co., according to Japanese industry sources in October. The sources further predicted that China's aluminum import purchases from Japan were likely to reach about 30,000 tons in 1975.

Canadian Aluminum—Alcan Aluminum of Canada sold 43,000 metric tons of aluminum worth \$35 M to China in September, reported the Canadian press.

Wire Rope—Under terms of a contract with 17 Japanese rope companies, China has arranged for the import of 18,000 tons of the product between October 1975 and March 1976. This purchase of Japanese rope is China's biggest to date. The prices agreed to are reportedly lower than those for the first half of fiscal 1975.

Afghanistan Cotton—China initialled a contract with Afghanistan's Herat Joint Stock Company to purchase 2,000 tons of cotton worth \$3m. The cotton was scheduled to be delivered within a period of three months.

Fewer Machine Tools—China bought 11.4% less machine tools from Japan in the first half of 1975 than in the comparable period in 1974, according to the Japan Machine Tool Trade Association (JMTTA).

Chemical Plant—Krupp-Koppers, the German chemical engineering and process plant building firm, announced on January 7 that it has received an order from the PRC for the supply of dimethylenephthalate (DMT) plant having an annual capacity of 90,000 tons. Production is due to begin in 1979. Krupp-Koppers will supply equipment and have responsibility for supervising construction and training Chinese personnel to operate the plant.

Turbine Technology—Siemens A. G., the large Munich-based industrial firm, has recently sold the PRC technology for 150 megawatt steam turbines. Application of the technology reportedly covers three plant sites in China, where the German know-how will replace Eastern European technology currently in use. It is believed that a lump sum payment is involved.

Nightsoil—For the first time, China has begun to import a "small and experimental" quantity of nightsoil, according to a January report. The nightsoil is being exported from Hong Kong by its Urban Services Department—also the first time that city has exported what is normally viewed as a worthless commodity. The exact value of the export is not known, although one source said that Hong Kong hopes to make as much as \$20,000 a month.

China Buys License from Rolls-Royce—Rolls Royce, Ltd., the British aero-engine producer, announced the signing of an agreement reportedly worth \$190 million to provide jet aircraft engines to China, according to a December 15 report. The Company will supply "an initial batch" of both civil and military versions of its Sero Spey engines to China, and will then license the manufacture of further engines in China. The contract is expected to lead to an additional \$40 million worth of unspecified business. The engines will be used in many capacities, including installation on Hawker Siddeley Trident airliners already in service in China. No figures on the number of engines to be delivered, or the amount of actual production work, were given. A subsequent year-end report pointed out that in giving the go-ahead to this deal, Britain partially sidestepped the machinery of COCOM, the international committee that votes on Western sales of strategic goods to Eastern Europe and China. The Spey engines have a clearer military use than many of the deals that COCOM has vetoed in the past.

Cat-Mit Sells Equipment—Machimpex has purchased a bulldozer, crawler loader and wheel loader from Japan's Caterpillar-Mitsubishi Company, a 50-50 joint venture of Mitsubishi Heavy Industries Ltd. and Caterpillar. The

equipment was displayed at last November's Japan Industry and Technology Fair in Peking. Caterpillar's initial foray into the China market resulted in the sale to China of 38 bulldozers with pipe laying equipment earlier this year.

Plastics—Two Japanese plasticizer manufacturers have concluded contracts with Sinochem for the sale of 2100 tons of dioctyl phthalate. Under contract terms Kyowa Hakko Kogyo and Seksui Chemical will ship the material in early 1976.

Trucks from Hino—Machimpex has purchased 1,000 medium-sized trucks from Hino Motors Limited of Japan. The deal, worth ¥1,700 million, is believed to be the third largest truck order ever engaged in by China. Shipment is to take place between January and March 1976. Since 1965 Hino has exported about 8,000 trucks to China.

ROLLS ROYCE VERSUS COCOM

China traders seeking to point out COCOM inconsistencies need look no farther than the recent \$190 million deal between beleaguered Rolls Royce (1971) Ltd., the British aero-engine manufacturer, and the China National Technical Import Corporation (Techimport). Under terms of the agreement an unspecified number of aero Spey engines with both civil and military application will be supplied China, with further production of the engines to go forward in the PRC under license.

In 1973 the same deal was presented to COCOM but withdrawn after widespread opposition surfaced within that organization. This time, however, the British government did not submit the Rolls Royce sale to COCOM for approval.

Observers say that the Spey engines have more direct military application than many items blocked for sale by COCOM in the past, particularly in light of the technically sophisticated afterburners included in the Rolls Royce package. The Spey is standard equipment on Royal Air Force Phantoms and Buccaneers as well as US Corsair aircraft.

According to a London newspaper, *The Financial Times*, while the British government did not consult with COCOM, it did carry out bi-lateral discussions with some COCOM members, including the US. The British Ministry of Defense reportedly argued that the Speys would not give China the ability to power long range bombers, a weapon not presently in their military arsenal.

In another transaction between a COCOM member and China involving equipment with military potential, the West German Messerschmitt-Bolkow-Blohm group has reportedly signed a licensing agreement with Techimport, providing technology for the Chinese to manufacture the seven passenger B-105 helicopter. It was not known whether the West German government had submitted the deal to COCOM for approval.

Copper Process Talks—November 1975 Japanese press reports say that Mitsubishi Metal Corporation has been discussing the sale of an electrolytic copper production process to China. The Japanese firm developed the know-how with its subsidiary, Onahama Smelting and Refinery Company. In a related development, China has also been talking with Furukawa Company about its copper ore smelting technology.

Paraxylene Plant Negotiations—Toray Industries, the Japanese firm involved in the construction of a polyester fibers complex in Shanghai in 1973, is now negotiating the sale of a 60,000 ton per year paraxylene plant according to November 1975 press reports. The paraxylene unit is to be part of a major polyester fibers complex slated for construction in the Peking area. Industry observers say that Toray and Techimport may finalize the contract in the first half of 1976.

LNG Talks—Talks between Techimport and Bridgestone Liquefied Gas are continuing on the subject of the Japanese firm's construction of a turnkey liquefied natural gas plant in China. Preliminary plans call for the plant to produce 300,000 tons of LNG per year. It would be located at the Takang oil fields near Tientsin. Also involved in the project are Ishikawajima-Harima Heavy Industries and Toko Bussan Co.

Oxygen Generator—China's steel-making capability will get a boost with Techimport's purchase of an oxygen generator last November from Ataka and Company, a Japanese Trading House representing Japan Oxygen Company, Ishikawajima-Harima Heavy Industries, Fuji Electronics Company and Sumitomo Precision Products Company. The generator is designed to produce 35,000 cubic meters of oxygen per hour. A ¥3,600 million price tag was placed on the deal.

Mini-Computer—The French computer manufacturers, Telemachanique, sold its model T1600, a mini computer, to Machimpex last November. The machine will check measurements, compile dimensional statistics, and produce characteristic curves on printers at a factory in China's Northeast.

Sumitomo Salvage Boat—Sumitomo Shoji will build a ¥6,000 million salvage boat for Machimpex under a contract signed last November. The vessel, equipped with bathysphere and other submersible gear, is 3,100 gross tons in weight.

US Machine Tool Talks—One of the participants in the recent National Machine Tool Builders Association organized mission to China is reportedly negotiating with Machimpex for the sale of horizontal and vertical boring equipment, worth \$6 million, for a gas turbine factory. The G. A. Gray Company of Cincinnati, a subsidiary of Warner and Swasey of Cleveland, was represented in the NMTBA mission by Graham E. Marx, the firm's president.

LNG Refining Plant—Two Japanese firms have received separate inquiries from Techimport for natural gas refining facilities valued at about ¥10,000 million. Japan Gasoline Company Limited and Chiyoda Chemical Engineering and Construction Company Limited were report-

edly approached by the Chinese in anticipation of the dispatch of a nine-member Chinese natural gas refining delegation to Japan in January 1976. According to Japanese industry sources, the two firms have already begun technical exchanges with their Chinese counterparts. The plant would refine natural gas now being produced in Szechwan Province.

Airbus—A recent report in the British press hints that British prospects for further China sales of Trident Aircraft may be hurt by Peking's new interest in the French-built European air bus, A300B. According to the report, liberal financial terms offered by European banks (annual interest at only 7%) is one of the factors adding to the attractiveness of the French jet.

More Japanese Aluminum to China—Early January reports from Tokyo were that Mitsui Aluminium Co. has contracted to sell the PRC 4,000 metric tons of primary aluminum priced at \$17.33.2 cents a pound. These prices were about a third below domestic Japanese market prices, and came at a time of unusually high inventories in Japan.

SELLING REPORTS

Crude Oil Negotiations with Japan Continued—China raised the price of crude oil exported to Japan in the final quarter of 1975 by 20 cents to \$12.30 per barrel, announced a Japanese official after returning from the PRC on October 31. This year's exports of Chinese crude to Japan are expected to total about ten million tons. During the visit of Japan's Federation of Economic Organizations (Keidanren) to China the month before, China agreed to increase export of this crude "year by year" to respond to Japanese wishes. It will export the oil from Taching and from other areas in the future. Meanwhile, one leading Japanese businessman, Masami Ishida, president of the Petroleum Association of Japan, advised Japanese companies not to press for long-term oil agreements, but to make spot purchases instead. In 1975 Japan bought only six million tons of oil from the PRC, two million tons less than expected.

Oil to Philippines—China initialled an agreement with the Philippines on November 14, 1975 which stipulates that it will provide oil at a lower price than that sold to commercial buyers. The Philippines' annual oil consumption is estimated at 72 million barrels. The agreement is the first to be signed since the two countries established diplomatic relations in June 1975.

Seafood to Japan—Representatives of the Kobe fishery industry conducted negotiations with Tientsin municipal authorities in mid-October on the long-term export of Chinese frozen prawns, mackerel and squid worth 100,000,000 yen, according to Japanese sources. Basic agreement on long-term fishery trade transactions between Kobe and Tientsin has already been reached.

Oil Sale Projections—Japanese authorities estimate, in early 1976, that Japan would find it acceptable to buy 20-25 percent of her oil requirements from China in future. Of Japan's projected 500 million ton oil needs in 1980, 40

might come from the Soviet bloc, and as much as 100-125 million tons from the PRC. This anticipation contrasts strongly with a US government estimate projecting China being able to export only 27-33 million tons by 1980. Another US estimate, that of the Bureau of Mines published in late 1975, projects potential Chinese oil exports at 50 million tons yearly in the 1980s.

PVC to Japan—In the largest deal for PVC modifier (MBS) to date, China contracted in November to export 300m tons of that product to three Japanese companies—Mitsubishi Rayon Co., Kanegafuchi Chemical Industry Co., and Japan Synthetic Rubber Co.

Liquefied Natural Gas—Plans are under study for China to export liquefied natural gas to Japan beginning as early as 1978, reported industry sources in November. The first step in the planning is the construction in China of the first natural gas liquefying plant through a cooperative effort of the two countries. Participating in the plan are Bridgestone Liquefied Gas, Ishikawajima-Harima Heavy Industries, and Toko Bussan Company. Bridgestone conferred with China in October on construction of a 300,000 ton/year LNG plant at the Takang oilfield near Tientsin. China suggested a 20-year contract for sale of LNG at international price levels if the plan materializes.

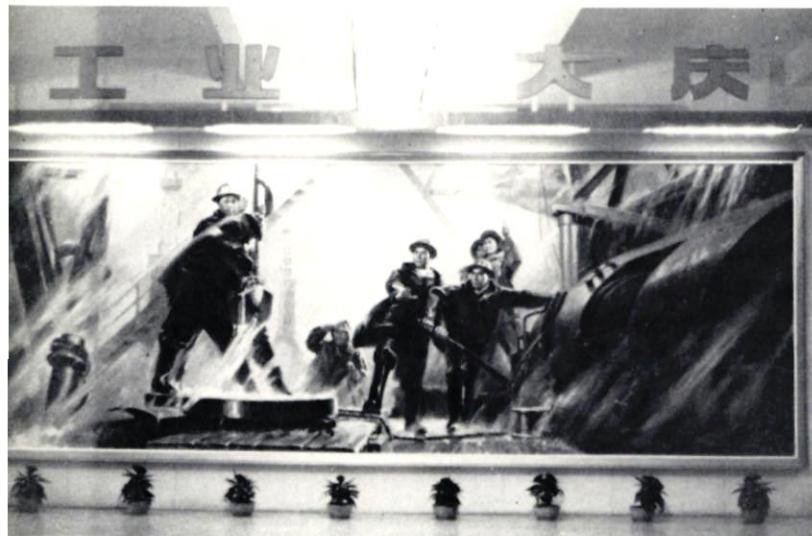
Silk Controls—Effective November 7, the Japanese government made imports of Chinese silk fabrics subject to official approval in order to protect domestic producers of silk kimono linings. Japan hopes to curb this year's purchases of Chinese silk to 1973 levels (24 million sq. meters). Japan's Chinese silk imports totalled 21 million sq. meters in the January-September period of 1975—nearly double the full year performance of 1974.

Cooperation Agreement for Musical Instruments—China concluded an official agreement with Japan in November for the export of 40-50 units of pianos per month, as well as a variety of Chinese traditional musical instruments, effective the beginning of 1977. Japan would also provide China with machine tools and raw materials for Chinese instrument production.

Chinese Urge Japan to Buy More—Chinese Vice-Premier Li Hsien-nien urged a high-level delegation from Japan's federation of economic organizations (Keidanren) to correct the imbalance in Sino-Japanese trade by buying more traditional Chinese goods, it was reported in late October. Li pointed out that because China's oil industry was still young, the trade gap—which totalled \$700 million in Japan's favor—could not yet be made up by oil exports.

Restraint on Tin Sales—China indicated in an early January article by NCNA that she will probably restrain exports of Chinese tin as requested by the International Tin Council (ITC) and Malaysia. The ITC has recently accused China of excessive tin sales. The PRC is estimated to have sold about 15,000 tons of tin in 1975, almost half of it to the US.

"Agreement" reached for Long-Term Coal Export—Chinese officials reached "basic agreement" in November with Japan's Electric Power Resources Development Corporation for the long-term export of Chinese fuel coal.



In industry, learn from Tach'ing. A dramatic mural at the Fall 1975 Canton Fair.

The two countries agreed to keep the price of coal competitive with that of oil. They further agreed that China will enlarge port and harbor facilities in order to allow 50,000-100,000 ton Japanese coal ships to enter Chinese ports; that China will concentrate on development of open-cast coal mines to lower costs; and that Japan will import Chinese fuel coal on a test basis.

AIR AND SEA

Japanese Ships to China—It was reported in October that Japan had exported to China the first of two large ocean salvage tugs from the Mukaishima shipyard of Hitachi Zosen. The "Suyui 20," 80m long, is capable of a ballard pull of 82 tons and is propelled by two Hitachi B & W 6S50 HU engines developing 9,000 hp and driving a single c.p. propeller.

Fly JAL—Japan Air Lines (JAL) announced in late September that it had transported 15,975 passengers and about 3 million tons of cargo between Japan and the PRC since the opening of the air route between the two nations a year earlier. The number of flights during that period totalled 204, with an average seat occupancy of 57.6%—7.6% above the original estimate. Seat occupancy since July 1975 was significantly higher than during the first part of the year.

Sri Lanka—The China-Sri Lanka joint shipping service has plans for adding a European run, according to an October 30 report from London.

Tankers and Freighters—For the first time China is exporting 3,000-ton class tankers and freighters, reports a Hong Kong source. Some of the vessels have a displacement tonnage of 4,905 tons and a cruising speed of 14 knots w/main engines of 32,600 hp. Orders are taken by shipyards in Shanghai with a lead time for delivery of eight months.

Deeper Harbors for Oil Tankers?—A private Japanese survey mission visited China in late November to discuss the deepening of Chinese harbors so that larger oil tankers

can call there, revealed Japan's Ministry of International Trade and Industry (MITI) on November 26. If the outcome is positive, it could greatly increase the attractiveness of Chinese crude to Japanese refiners, and lead to future increases in China's oil export to Japan. In 1975, China sold about 8 million tons of oil to Japan. At present, Chinese harbors are deep enough for tankers of up to 40,000 tons.

EXHIBITIONS AND EXCHANGES

Britain—At the invitation of the China Coal Society, the Association of British Mining Equipment Exporters visited China November 18-December 5. The mission was arranged in conjunction with the British Overseas Trade Board and continued the dialogue initiated during previous British mining missions since 1972.

Japanese Oil Specialists—The China National Chemicals Import and Export Corporation and the Ministry of Foreign Trade in November invited a Japanese oil refining delegation to China. Japanese sources believe that their move is related to the desire of the Japanese business community to import Chinese oil on a long-term basis; to Chinese recognition of the need to increase development of the light type crude oil required by the Japanese oil refining industry; and to the desire to import Japanese oil drilling and refining technology.

Zaire Trade Fair—China was represented for the second time at the Fourth Kinshasa International Fair in Zaire. According to the *Peking Review*, No. 41, the Chinese displayed farm produce, light and heavy industrial goods and handicrafts. Over half the countries participating in the Fair were from the Third World.

Oil Visit to Philippines—NCNA reported on November 3 that a Chinese oil trade delegation headed by Chao Mao-chun, general manager of the China National Chemical Import and Export Corporation had left to visit the Philippines.

Oil Delegation to Norway—China dispatched an oil delegation to Oslo in October in its continuing search for the technology and equipment to develop its vast untapped oil deposits. Representatives investigated whether Norwegian platforms and technology could be adapted to Chinese conditions. They were particularly interested in ferro-concrete platforms and construction methods, rig supply equipment, geological analysis, and oil storage methods. Norway is Europe's biggest producer of deep-sea platforms.

Japanese Auto Mission—Four Toyota group companies—Toyota Motor Company, Toyota Motor Sales Co., Toyota Automatic Loom Works, Ltd., and Hino Motors, Ltd.—sent a mission to China on November 15 for talks with Chinese auto industry officials on promotion of technical information exchanges. Toyota hopes to sell truck assembling plants to China.

Cable Makers—For the first time in 18 years, Japanese-made cables and wires were exhibited in China—at the Japan Industrial Technical Exhibition held from November 18 to December 2 in Peking. To offset the difficulties caused by the current cable-and-wire industry depression,

Japanese makers hope to begin exporting their products to China.

Shipping Delegation to Algeria—A Chinese shipping delegation visited Algeria in early October to discuss a shipping agreement with the Algerian government.

Yugoslavia—A Chinese delegation visited Yugoslavia in mid-October to sign an agreement for scientific and technical cooperation in 1976, according to Yugoslav radio.

Mexican Study Group—A Mexican rice study-group ended a month's study tour of China in early November after visiting agricultural research institutes, communes and other facilities.

Singapore—Machimpex dispatched a delegation to Singapore on November 26, following an invitation from the Singapore Economic Development Board, according to a Peking broadcast. Meanwhile, the *South China Morning Post* in Hong Kong asserted that the delegation would look into the possibility of buying oil-drilling rigs, shipping and industrial products.

Tanzanian TV Delegation—A Tanzanian Zanzibar television delegation toured China in November, according to an NCNA report.

Southeast Asian Groups—Two Southeast Asian industry delegations—from Laos and Burma—met with Chinese government officials on October visits to China.

Shipping Delegation to Japan—A delegation from the Chinese Ocean Shipping Tally Company began a visit to Japan on October 24 at the invitation of the Association for the Promotion of International Trade of Japan.

Japanese Spinning Mission—Nine major Japanese cotton spinners concluded a 12-day visit to China in late October, during which they conferred with officials of the China National Textiles Import and Export Corporation on the purchase of Chinese cotton and visited cotton spinning factories and cotton fields near Peking.

Japan Economic Head in China—The chief of Japan's Ministry of International Trade and Industry (MITI), Toshio Komoto, visited China November 15-20 for talks with Chinese Foreign Trade Minister Li Chiang and others concerning problems in bilateral trade.

Canadian Delegation—A Canadian port, harbor and marine terminal technology mission visited China October 6-23.

French Show—A French exhibition of scientific instruments is scheduled to be held in Peking this March.

Chinese Visit Cuba—A Chinese government trade delegation visited Cuba in early December for talks on a trade agreement, a payments agreement and the 1976 trade protocol between China and Cuba.

Iraq—At the invitation of the Iraqi government, a Chinese trade delegation visited that country in late November, according to an NCNA broadcast.

AGREEMENTS

Two German Agreements—China and West Germany signed two commercial agreements on October 31 during the visit to China of West German Chancellor Helmut Schmidt. The first, a civil air transport agreement, will open air routes between Cologne/Bonn or Frankfurt and Peking or Shanghai, with stopovers definitely fixed at Athens, Tehran and Karachi. The Germans see benefits in getting to Tokyo via Peking, and the Chinese in getting to Latin America via Germany. The second agreement, in maritime transport, would assure no discrimination against flags, an MFN clause, and elimination of double taxation.

Philippine Trade Pact—China and the Philippines have reached agreement on a long-term trade exchange which pledges the Philippines to export sugar, logs, copper concentrates and coconut oil.

Pakistan Barter Pact—In November, Pakistan and the PRC signed a barter agreement for 1975-76 calling for Pakistan to provide China with raw cotton, cotton yarn, cotton textiles, sports goods and other items. China will export to Pakistan iron and steel products, coal, coke and brickettes and chemicals.

French Maritime Agreement—An agreement on maritime navigation was signed by France and China at the end of September.

Czechoslovakia—China and Czechoslovakia signed their 17th protocol for scientific and technical cooperation in October.

Gambia—A trade agreement between the PRC and Gambia was signed in Peking on November 5.

Syrian Aviation—China and Syria initialled a civil air transport agreement in Damascus on November 10.

Vietnam—A 1976 agreement for the mutual supply of goods and payments was signed by China and the Democratic Republic of Vietnam on October 25 in Peking.

FOREIGN AID

Factories in Malta—China is considering setting up another seven factories in addition to the 11 it already has under way in Malta, according to an October report. The projected facilities will produce cosmetics, ballbearings, nuts and bolts and screws, leather goods, cutlery and brooms, and are expected to export more than 60% of the items they produce.

Pakistan Steel Mill—A December broadcast from Karachi revealed that China will provide technical and financial assistance for the construction of a mini steel mill at Shahwali, Pakistan. The plant, which would contain pig-iron and steel-smelting facilities capable of an annual capacity of 100,000-200,000 tons, has a projected cost of L 13.6m.

Aid to Sudan—China and the Sudan signed a cooperation protocol in early October which called for China to provide

equipment to exploit fishery resources in Sudan's Nuba lake, according to a Sudan broadcast.

Colombo Flood Aid—A Chinese technical survey team which investigated the Gin Ganga basin in Colombo for a year presented a final report to that government on November 8 containing detailed proposals for a flood protection scheme. These proposals should benefit 20,000 people in 4,000 dwellings.

MISCELLANEOUS

Trade Balance with Japan—Trade between the PRC and Japan in the first nine months of 1975 hit \$2,875.4m, a 31.3% increase over the same period last year, according to figures released by JETRO on November 1. The JETRO statistics revealed that during the first three-quarters of 1975 Tokyo's surplus in trade with China was US\$740.1m, topping that of \$683m for all of 1974. It attributed the increase in Japan's surplus to stepped-up drives in exports to China to offset the increased domestic demand. Steel, machinery, and chemical fertilizer accounted for 80.7% of the total exports to China. Japan's overall exports of \$1,807.8m reflected a 40.7% increase from the year-before level, while imports totalling \$1,067m registered an 18% rise.

China Trader Tours—British businessmen may choose to tour China under the wing of Study China Travel, Ltd., an organization which has sponsored three successful visits for business groups to the PRC. Cecil Kline, managing director of the company, set up the sorties in April, July and December 1975.

Nuclear Data—China wants to obtain more scientific and technical help from western scientists on nuclear research, reported a delegation from the 12-nation European Organization for Nuclear Research after departing China on November 8. Representatives also noted that Chinese physicists were up-to-date on recent developments in controlled thermonuclear fusion and reactor technology.

Satellite Communications—Bangkok reported in November that Thailand and the PRC had the technology available to conduct satellite communications between the two countries 24 hours a day. At present, however, most communication is done through telephone service.

Italian Silk Protest—China's extremely low raw silk prices have triggered the planning of a protest by Italian silk cocoon growers to the EEC, it was reported in October. The Venice-based National Breeders Association said the Chinese prices—as low as 10¢/lb. in comparison to Italy's 86¢/lb.—are forcing Italian cocoon growers out of the market.

Relations with EEC—Some sources expect China, which recently opened diplomatic relations with the EEC, to press for the removal of quota restrictions on all its exports to the community. There are about 200 such goods—800 others already enter the EEC free of restrictions.

More Sino-US Bank Ties—The \$13.5 billion deposit First National Bank of Chicago announced in early De-

cember that it has established a "modest" correspondent banking relationship with the Bank of China. The formation of ties by FNB follows close on the heels of a similar arrangement between the BOC and the \$53.9 billion-deposit Bank of America, which established a relationship last October, and will essentially offer the same type of service: handling mail remittances and telegraphic transfers of non-trade connected funds between individuals in the two countries. Manufacturer's Hanover Trust, the giant New York bank, announced a similar agreement on January 22, 1976.

Trade with Sri Lanka—During the first half of 1975, China became the largest market for Sri Lanka's exports as well as that country's biggest supplier. Exports from China totalled L 21.2 million and imports to China reached L 13.5 million.

Trade with Australia—Sino-Australian bilateral trade registered a dramatic increase from 1974 to 1975, partly due to the success of the first Australian trade exhibition in Peking during 1974. Exports to China totalled 356.7 million Australian dollars in 1975, compared with A\$162.5 million the previous year. Imports from China increased A\$9.1 million in 1975 to a total of A\$80.9 million.

Japanese Imports—During a December visit to Peking, representatives of the private Japan International Trade Promotion Association (JITPA) reportedly told PRC trade officials that Tokyo would seek to import \$30 billion of Chinese commodities in the next six years, an average of \$5 billion per year. With partial returns indicating that Japan's China purchases for 1975 will fall below \$1.5 billion, JITPA's goal seems optimistic. 完

CORRECTIONS

UCBR would like to apologize for several errors which were printed in our last issue, Volume 2, Number 6:

Page 17, chart. The first ship listed should have been the Andaman Sea, which sailed from Tsingtao to Baltimore with a cargo of bauxite, arriving on February 17, 1974; page 37, first paragraph, line 6 should have read ". . . some 1.5 million metric tons . . ."; and page 43, column 2, lines 17 and 18, should have read "from the mixture by fractional freezing or adsorption."

The caption to the photo on page 12, Volume 2, No. 6, should have read "Native Produce and Animal By-products Corporation delegation members Wu Fu-sheng (r), leader Han Piao (2nd from r), Ma Ke-chin (3rd from l), accompanied by May Li Phipps of the National Council, visit with officials of Union Camp in Georgia, including Mr. A. B. Doran, Senior Vice-President (center)."

Due to misunderstanding of information from China Consultants International, Ltd and Caterpillar Far East Ltd, it was incorrectly stated on page 10 of the last issue that Williams Brothers Co is subsidiary of Caterpillar. We apologize for this error.

DATA FOR CHINA BECOMES MORE COMPETITIVE

More industrialized countries have recently established publications designed to convey technical information to Chinese end-users, either via articles or advertisements. Foreign firms using the pages of these magazines have included W. R. Grace; Singer Company; Chromalloy; Monsanto; Peugeot; Renault; British Steel Corporation; and Shell International Chemical Company, Ltd. American firms and their foreign subsidiaries wishing to send their data to China's end-users should note this complete list. Publication of this list does not represent an endorsement by the National Council.

AMERICAN INDUSTRIAL REPORT

Publishers: China Consultants International,
Ltd. (in cooperation with the
National Council)
Address: 3286 M Street, N.W.
Washington, D.C. 20007, U.S.A.
Telephone: (202) 338-2388
Frequency: Bi-monthly
First begun: September, 1973

BRITISH INDUSTRIAL REPORT

Publisher: Sino-British Trade Council
Address: 25 Queen Anne's Gate
London SW1H 9 BU, England
Telephone: 01-930 9545

DUTCH TRADE NEWS

Publisher: Sembodja Holland B. V.
Address: Keizersgracht 728
P.O. Box 1079
Amsterdam, Holland
Telephone: 020-238 150
Frequency: Twice per year
First begun: November, 1974

EXPORT MARKET

Publishers: Vogel-Verlag KG
Address: Max-Planck-Str. 7/9
8700 Wurzburg
Federal Republic of Germany

Telephone: 0931 *4102-1
First begun: January 1975
Separate editions for Belgium,
Germany and Switzerland.

EUROPEAN INDUSTRIAL REPORT

Publisher: Deutscher Fachverlag GmbH
Address: 27 Schumannstrasse
6 Frankfurt am Main 1
West Germany
Telephone: 0411862
Frequency: Four times per year
First begun: April, 1972

INDUSTRIE RECHERCHE ET TECHNOLOGIE FRANCAISES

Publisher: Centre Francais du Commerce
Exterieur
Address: 10, Avenue d'Lena
75783 Paris Cedex 16, France
Telephone: (1) 723.61.23
First begun: January 1975

JAPANESE INDUSTRIAL TECHNOLOGY

Publisher: Koyosha Co., Ltd.
Address: 1-1-2 Hakusan, Bunkyo-ku
Tokyo, Japan
Telephone: (03) 813-5433
First begun: 1967

Oil Data to the PRC: The U.K.'s Operation Avalanche

Another method for feeding technical information to PRC end-users is the brainchild of the Sino-British Trade Council. "Operation Avalanche VIII," which was air-freighted to Peking on September 19, contained over a ton's worth of petro-chemical literature from 60 British companies. The shipment was divided into 26-kg. sets, each fully indexed by company and by product, to be distributed to 30 organizations in China's oil industry as a buyers' guide to materials, equipment and technology available from Britain for oil-related industries. 完

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FULL MEMBERSHIP

Membership in the National Council for United States-China Trade is open to American firms interested in doing business with the People's Republic of China. The principal categories of membership are (1) corporations or business entities with sales or gross income equal to or greater than \$50 million for the fiscal year immediately preceding the date of application for membership, for whom the annual dues are \$2,500; (2) those with sales or gross income of between \$20 million and \$50 million for the fiscal year immediately preceding the date of application for membership, for whom the annual dues are \$1,000; and (3) those with sales or gross income of less than \$20 million for the fiscal year immediately preceding the date of application for membership, for whom the annual dues are \$500.

IMPORTERS AFFILIATE MEMBERSHIP

In a special effort to assist smaller American firms interested in importing goods from China, the National Council has a special category of affiliated membership. Companies engaged primarily in importing, and having sales or gross income of less than \$10 million in the year immediately preceding the date of application for membership, may join the National Council upon payment of annual dues of \$250.

Importers in the National Council constitute a special committee whose activities are designed not only to acquaint importers and potential importers with Chinese manufacturing, sales and trading practices, but also to aid the Chinese Foreign Trade Corporations in understanding the import regulations, consumer tastes and other market conditions in the United States.