The China Business Review

November–December 1980

Restructuring the Economy
Interview with Bo Yibo

The China Business Review

The Magazine of the National Council for US-China Trade

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Front Cover: *Vice-Premier Bo Yibo being toasted by The Boeing Company in Seattle during his September visit to the United States as a guest of the National Council. Photo by John R. Dewenter.*

The China Business Review welcomes articles from outside contributors. Manuscripts submitted for consideration should be typed double-space and normally may not exceed 5,000 words. They should be sent to the Editor, *China Business Review*, Suite 350, 1050 17th Street, NW, Washington, DC 20036, USA.

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China Wire

New Year's Resolution — Down with Bureaucracy!

Bureaucracy is under fire on both sides of the Pacific. The new administrations in Beijing and Washington are set on spurring economic growth, reducing budget deficits, lowering inflation, and whittling down bureaucratic impediments to business. China's Fifth National People's Congress took shot after shot at red tape; Chairman Hua Guofeng brought up the issue several times in his main address September 7:

Corruption. "Our cadres must fight resolutely against the practice of tailoring the law to suit one's own selfish ends and against bureaucrats shielding one another in wrongdoing." (Some 89 bribery cases involving over ¥10,000 each [$6,670] were prosecuted in the first nine months of 1980.)

Incompetence. "Even if he proves really incompetent or does not apply himself to his work, he remains a cadre unless he is dismissed. How is it possible to realize modernization if such a state of affairs is not thoroughly changed?"

Dismissal of cadres. "A concrete feasible system should be worked out for appointment, examination, assessment, reward and sanction, training, promotion, reassignment, retirement, dismissal, and so on, for cadres at all levels and categories."

Reduction of paperwork. "Various departments are often not clear about their duties and responsibilities and, when there are no precedents to follow, have no alternative but to report to the higher authorities and seek instructions, and pass reports from one echelon to another. Hence the odyssey of official papers and the deluge of reports and meetings, the disputes over trifles and dilatory styles of work."

Criminal activities. "Leading cadres . . . must not shield their children or connive to cover up their criminal activities. We must wage a resolute struggle against those who take part in speculation, profiteering, or other criminal offenses." (This according to Yang Dezhi, a PLA delegate to the NPC.)

All of this, if carried out, will be welcome news to foreign business executives dealing with China, increasingly frustrated and uneasy about the effects of mismanagement, interdepartmental rivalries, and fiscal bumbling. Hotels and airlines are first in line for a management shake-up. Some recent snafus: A large European delegation arrived in Beijing to find nowhere to sleep for two nights. The first night they had to sleep in a trailer park 15 miles out of the city, the second on floors and couches of the Beijing Hotel. A major foreign company lost a million-dollar deal because visas for its personnel were not processed in time, even though MACHIMPEX had authorized them. Another firm could not get vital negotiation personnel in for the same reason, even with ministry authorization. (Meanwhile, a record 134 Chinese delegations visited the US in September.)

A Year-round People's Congress?

With the above kinds of problems — and China's clear intention of resolving them — it would make sense for the PRC to convene a year-round legislature (perhaps bicameral) with representatives from all provinces, municipalities, and autonomous regions, who would resolve ongoing issues through committee activity. The increasing volume and complexity of NPC business, plus its already established panels (on energy, irrigation, legal matters, education, agriculture, the arts, heavy industry, etc.), would make this a natural, if not inevitable, development as change quickens in China.

Onward, Profitably, to the 1981–85 Five-Year Plan

As China's next five- and ten-year plans head toward approval by China's next Party Congress, which should convene in January or February, the new emphasis on market-oriented policies is already taking hold. Business executives visiting China next year will have to accept the changes and the new faces that accompany them. Recent examples of the new stress on profits:

Shanghai artists complain "we should not stress profit targets and go after box office records with money-making as the sole purpose without caring about our social impact in the arts." Meanwhile, Guangzhou's acrobatic troupe is astounding US audiences in 60 performances, including some at Radio City Music Hall, which will net them at least $180,000.

Selling technology for money is in. The Physics Institute of the Chinese Academy of Sciences has so far contracted 21 new technologies to 19 Chinese factories, on terms that include 20 percent of the profits in the first year, 10 percent in the second, 5 percent in the third, etc., or royalties based on sales decreasing from 5 percent in the first year, 2–3 percent in the second, and so on.

The ministries of light industry and commerce announced results of China's first national market forecast by those ministries in more than 30 years. Findings of the household appliances survey: Demand for electric fans will total 2 million annually through 1985, after which demand will slow. Demand for washing machines will be 1.5 million annually by 1985.

Thirty large and medium-sized power and textile industry projects are now entirely financed by bank loans, amounting to ¥2.8 billion.

Meanwhile a March 1979 article in China's *Finance and Accounting*, brings into the open China's conscious replication of foreign technology in the past: "Once imported equipment has been put into production it is still necessary . . . to achieve true mastery and digestion of data. Only in this way can we replicate and copy equipment so as to turn advanced foreign technology to our own purposes. . . . But much red tape limits such activity. . . . For example, they allow reproduction [of blueprints] by only a single planning institute, but proper equipment for reproduction is not available there, so the resultant photographic prints are useless. Much imported equipment has not been examined and sketched on time. . . ." —NHL 完

Council Activities

Bo Yibo Sees Council As Counterpart Organization

During his recent month-long visit hosted by the National Council, Chinese Vice-Premier Bo Yibo said he considers the National Council for US-China Trade the counterpart organization to the State Machine Building Industry Commission, which he chairs. He said he hopes the two organizations can arrange exchanges between Council member firms and China's machine building industry in the future. Bo's delegation visited some 25 member firms in various parts of the country for briefings on corporate management.

Besides the vice-premier and the new finance minister, Wang Bingqian, the delegation also included several commission vice-chairmen and vice-ministers representing, in all, six commissions, seven ministries, the Bank of China, and five institutes and professional associations.

Council to Sponsor Beijing Telecommunications Exhibition in 1981

A US Telecommunications exhibition called CHINA-COMM '81 will take place in Beijing November 3–13, 1981, under the joint auspices of the National Council and the Communications Division of Electronic Industries Association. The show will introduce US-manufactured commercial telecommunications equipment and systems to as many as 100,000 key Chinese officials and engineers. About 100 US manufacturers are expected to exhibit their equipment and systems in the Beijing Exibition Center.

CHINA-COMM '81 will be the first US industry-sponsored show in China to exhibit sensitive high-technology items. Categories of equipment and systems to be displayed include telephone station, exchange, and transmission equipment, satellite communications equipment and systems; microwave equipment; broadcast equipment; mobile radio equipment; digital and optical fiber transmission, switching, and terminal equipment; and various types of terminals.

The show will not include consumer products, parts, tubes, semiconductors, and the like; military-nonmenclatured equipment and systems, and organizations that are deemed to be distributors or representatives rather than manufacturers or assemblers. Nor will non-US origin equipment be included. For further information, contact Richard Gillespie, National Council staff (202) 828–8346, or Ted Krause, of Clapp and Poliak (202) 657–3090.

Building Materials, Packaging, State Bureau of Supplies, and Oil Delegations

Senior Chinese officials led four other delegations organized by the National Council this fall. A construction materials group in October was headed by Song Yangchu, who serves as both minister of the Building Materials Industry Ministry and vice-chairman of the State Capital Construction Commission. A delegation from the State Bureau of Supplies was headed by Li Kaixin, bureau director and vice-chairman of the State Planning Commission. This bureau is currently in charge of the distribution within China of 256 top-priority materials, many of which it imports through the Ministry of Foreign Trade.

In October and November, the Council also hosted a group from the Ministry of Foreign Trade, headed by Assistant Minister Du Yuyun, here to attend the Pack Expo 80 exhibition in Chicago; an offshore oil survey delegation led by Qin Wencai, vice-president of the Petroleum Corporation of the PRC, and vice-minister of petroleum industry; and a petroleum machinery trade survey mission headed by Fan Muhan, vice-chairman of the State Machine Building Industry Commission.

Upcoming Chinese delegations to be hosted by the Council include a nuclear instrumentation group in January 1981 and an energy group in March. The first, headed by Yang Yinbin of the Chinese Nuclear Equipment Corporation, plans to discuss cooperation with American companies for production of nuclear instruments. China's minister of coal, Gao Yangwen, will head a State Energy Commission delegation in March. The delegation will be interested in all aspects of openpit coal mining, as well as hydroelectric, coal-fired, and nuclear power plants.

New Beijing Representative

Beginning January 1, 1981, Scott D. Seligman will become the National Council's new Beijing representative, replacing Richard Glover, who has been in Beijing for more than a year.

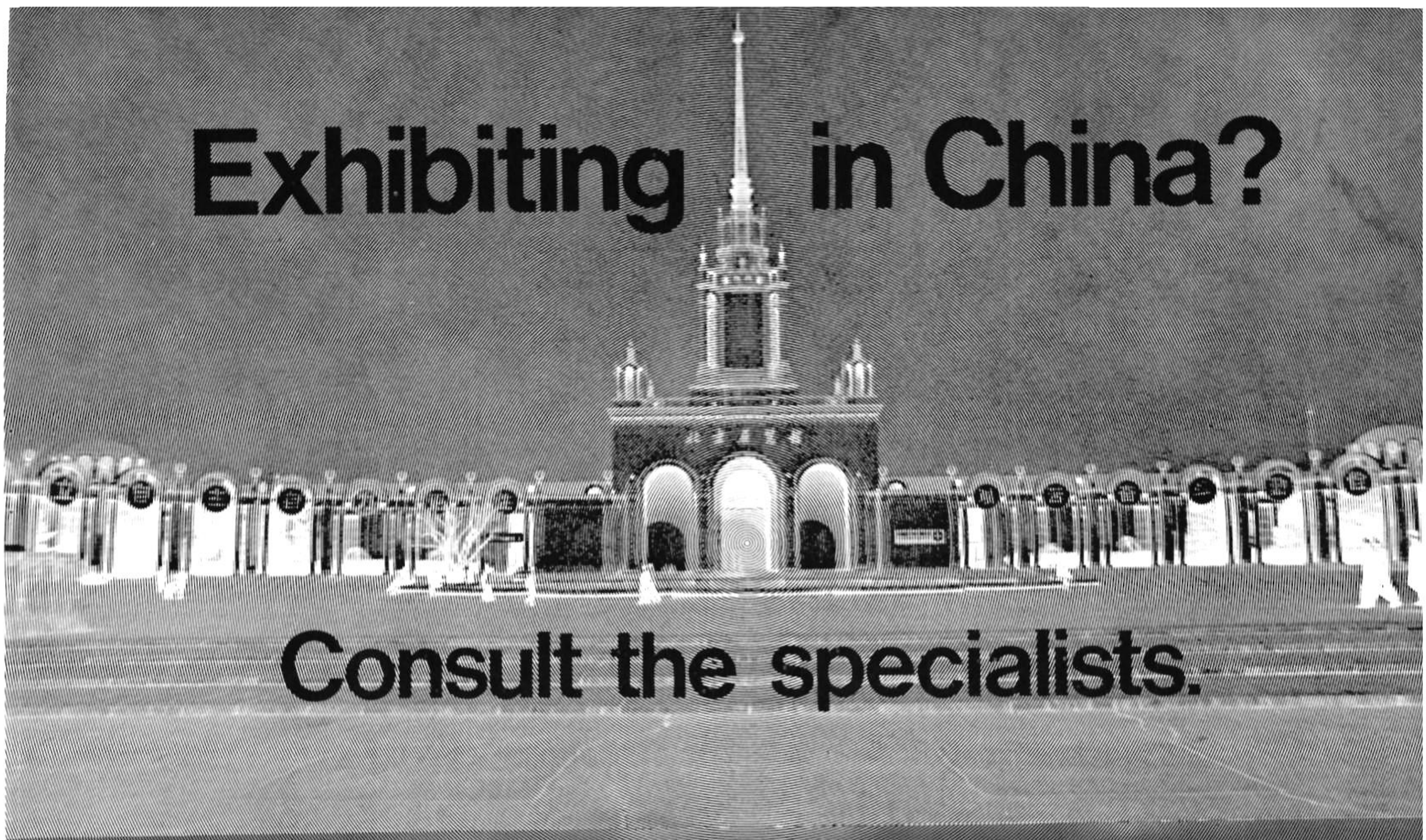
Seligman has worked as an assistant director in the Council's Delegations Department since October 1979, organizing and accompanying delegations to and from China, including the visits of Yuan Baohua, vice-chairman of the State Economic Commission, and Lu Kebai, vice-chairman of the State Capitol Construction Commission.A graduate of Princeton University, he is fluent in Mandarin, which he learned while working for two years as an English language instructor at Tunghai University in Taiwan.

Another new face at the Council's Beijing office is Li Wenda, a Chinese national who has served the Council as staff assistant since August 1980.

Replacing Seligman as assistant director in the Delegations Department in Washington is Jeanne T. Chiang. She has worked in the advertising department of *The New York Times* and has two master's degrees in linguistics from Columbia as well as a certificate from New York University's Graduate School of Business Administration.

New Location of the Beijing Office

The National Council's office in the Beijing Hotel has moved from Room 1105 to Room 1136. The telephone numbers remain the same — 552231, 556531, and 558331 — but are now followed by ext. 1136. 完


Exhibiting in China?
Consult the specialists.

China Calendar

☐ **Milton, Massachusetts, October 21, 1980–February 16, 1981.** An exhibition of Chinese dress from the late Qing Dynasty (1759–1911) is being featured at the Museum of the American China Trade (215 Adams Street). For information, call Linda Abegglen, (617) 696–1815.

☐ **New York, December 1–2; 4–5.** The American Management Associations is sponsoring two seminars entitled "Technology Markets in China" and "Barter Principles in the People's Republic of China" at its headquarters (135 West 50th Street). For information, call (212) 246–0800.

☐ **Chicago, December 4–5; Miami, January 15–16.** A two-day seminar evaluating alternative entry strategies for foreign markets is being conducted by The Wharton School of the University of Pennsylvania. For information, write Information Services, University Conference Center, 20th floor, 360 Lexington Avenue, New York, NY 10017; or call (212) 953–7272.

☐ **San Francisco, March 3–22, 1981.** The San Francisco Chamber of Commerce is sponsoring a business development tour of six Chinese cities. Participants will meet with Chinese trade officials in the Ministry of Foreign Trade, the China Council for Promotion of International Trade, the China International Trust and Investment Corporation, and with commercial staff members of the US Embassy and Consulate General. For information, write delegation escort Newman Lee, president, Tiller International, Inc., 209 Post Street, Suite 1015, San Francisco, CA 94108; or call (415) 397–1966.

Exhibitions in China

☐ **Guangzhou, November 20–December 4.** The International Advanced Technology and Equipment Fair will feature light industrial equipment and instruments; minicomputers and electronics; and printing and packaging materials in Haichu Square. The fair is being sponsored by the Guangzhou Bureau for the Exchange of Technology and organized on a nonprofit basis by the Great Sincere Technology Exchange Company, Ltd.

☐ **Beijing, November 25–December 13.** Approximately 120,000 Chinese end-users of drilling and mining equipment will attend the Foreign Advanced Technology Fair in the Beijing Technology Center. For information, write *Petroleum News SEA*, 10th floor, 146 Prince Edward Road West, Kowloon, Hong Kong; or call 3–80529/5.

☐ **Honolulu, Hawaii, January 12–14, 1981.** The Pacific Telecommunications Conference (PTC 81) will feature an equipment exposition, technical sessions, and a tour of Hawaii's communications facilities. Among the topics which will be discussed are: telecommunications in the PRC, Pacific island telecommunications requirements, satellite orbit and spectrum allocation issues, social effects of telecommunications, and communications and developing societies. For information, write Pacific Telecommunications Council, Richard J. Barber, PTC 81 director, 2424 Maile Way, Room 704, Honolulu, Hawaii 96822; or call (808) 941–3789, (808) 948–8019. (Telex: 634134).

☐ **Guangzhou, February 23–28, 1981.** The Guangdong Packaging Corporation has chosen Industrial and Trade Fairs International, Ltd., to organize China's first international packaging exhibition. For information, write John Legate, IT&F, Ltd., Radcliffe House, Blenheim Court, Solihull, West Midlands B91 2BG, United Kingdom; or call (021) 705–6707 (Telex: 337073 ITFG).

☐ **Tianjin, March 9–16, 1981.** The Guangdong branch of the China Packaging and Export Corporation will sponsor the International Exhibition on Packaging Equipment and Materials at the Foreign Trade Center. For information, contact Jerome W. Romaine, OT Marketing Company, (201) 239–2014; or Walter Keats, Middle West Consultants, Ltd., (312) 256–7887.

☐ **Beijing, April 5–25, 1981.** ATI Equities, and International Western Adventures, Inc., have signed an agreement with the China Sports Service to bring a rodeo and popular music concert to China.

☐ **Beijing, November 3–13, 1981.** A US Telecommunications Exhibition at the Beijing Exhibition Center is being jointly sponsored by the National Council for US-China Trade and the Communications Division of Electronic Industries Association. The exhibition, featuring US-manufactured equipment and systems, will be the first industry-sponsored, high-technology show produced in China. For information, contact Exhibition Manager Ted Krause at Clapp & Poliak, (202) 320–3511. —LS 宪

RMB: DOLLAR RATES AS OF NOVEMBER 7, 1980

	RMB/ US$	US¢ RMB
September 19		
Bid	1.4178	67.9440
Offer	1.4594	68.5213
Median	1.4656	68.2314
September 23		
Bid	1.4777	67.6727
Offer	1.4653	68.2454
Median	1.4715	67.9579
October 20		
Bid	1.4836	67.4036
Offer	1.4712	67.9717
Median	1.4774	67.6865
October 22		
Bid	1.4895	67.1366
Offer	1.4771	67.7002
Median	1.4833	67.4712
October 28		
Bid	1.5014	66.6045
Offer	1.4890	67.1592
Median	1.4952	66.8807
October 31		
Bid	1.5075	66.3350
Offer	1.4999	66.6711
Median	1.5037	66.5026
November 4		
Bid	1.5150	66.0066
Offer	1.5074	66.3394
Median	1.5112	66.1726
November 6		
Bid	1.5256	65.5480
Offer	1.5180	65.8762
Median	1.5218	65.7117
November 7		
Bid	1.5317	65.2869
Offer	1.5241	65.6125
Median	1.5279	65.4493

SOURCE: Standard Chartered Bank, Ltd., New York.

Vice-Premier Bo Yibo on China's Current Priorities

Vice-Premier Bo Yibo, the chairman of China's State Machine Building Industry Commission, was interviewed by CBR Editor-in-Chief Nicholas H. Ludlow in San Francisco September 13.

Bo Yibo's commission was established in February 1980 "to map out a unified plan" governing China's eight machine-building ministries, which handle industrial equipment, nuclear devices, aircraft industries, electronics, conventional land armaments, shipbuilding, guided missiles, and ærospace.

A major purpose of the vice-premier's 34-day tour of the US under National Council auspices was to study US corporations, so that China might better implement its current drive to diminish the role of ministries and to put enterprises increasingly under the control of powerful new corporations.

CBR: Could you please discuss the economic reforms now under way in China?

Bo: Your question, in essence, is really a question about the reform of our economic management system. Our country's economic management system was based on the Soviet model, that is, concentrating the power of management in the various industrial departments of the central government.

Within the State Council there have been established many ministries, and they are responsible for all work, from the top all the way down to the grassroots level. That is the same thing for the state plan, which is an overall plan for the whole country. In a word, this is a kind of centralized management system.

CBR: Is it overly centralized?

Bo: That is right. Many years of experience with this form of economic management show that it is not a good form of management. This kind of centralized management really does not depend upon economic leverage, but rather on administrative directives to manage the economy. Such a concentration of power impedes management according to economic, technical, or scientific law.

"We will give more power to the various localities, and especially give more decision-making power over management to enterprises. . . .The function of ministries will gradually decrease."

At the moment we are in the process of adopting a policy of economic readjustment. One important part of the policy will be a change in the aforementioned economic management system. We will give more power to the various localities, and especially give more decision-making power over management to enterprises.

When we talk about the right of self-management of enterprises, we mean the right to manage their own production plan and also the marketing of their product. So this readjustment should in fact be lessening the management capacity of the various administrative organs of the central government.

We will give active consideration to the possibility of allowing enterprises to apply their strong points, or give full play to their individual advantages so that they may be in a better competitive

China's State Budgets, 1977–80

(in billion yuan*)

A look at China's budget over the last four years reveals that the government lost control over expenditures in 1979. A comparison of China's planned 1979 budget expenditures, released June 21, 1979, and actual year-end results show a surge of spending took place in the second half of 1979, perhaps forcing China to prolong its readjustment program. Total expenditures in 1979 exceeded planned expenditures by 13.7 percent; within this total, capital construction departments overspent by 31.9 percent, and defense expenditures were 10.2 percent above plan. On the revenue side, income was 1.5 percent below its 1979 target.

As a result of these overruns, the budget went from a surplus in 1977 and 1978 to a huge ¥17.06 billion ($11.0 billion) deficit in 1979. This year the deficit is expected to decline to ¥8.0 billion ($5.3 billion). A senior Ministry of Finance official told *CBR* on September 24 that the budget will suffer a smaller deficit of ¥5.0 billion ($3.3 billion) in 1981 before a budgetary balance is restored in 1982.

These figures indicate that 1979 was a crisis year in finance, during which time the Ministry of Finance ceased to exercise fiscal restraint. The government's sweeping reforms to decentralize administrative power and to increase enterprise self-management were undoubtedly contributing factors. These disruptions also were accompanied by changes at the top. Finance Minister Zhang Jingfu was replaced in February 1980 by Wu Bo, who then was replaced in August 1980 by Wang Bingqian. (Minister Wang recently completed a National Council-sponsored tour of the US to study US industry and corporate financial management.)

Finally, there have been significant changes in the shares of funds earmarked for various state activities. Between 1977 and 1980, capital construction fell as a share of the state budget, and smaller shares were appropriated for the renovation of existing enterprises, defense, and administration. But the size of defense's share is unclear, inasmuch as China's total defense budget increased in 1980 if expenditures on new weapons are included, according to official sources.

Item
Total Revenues
Industrial and commercial revenues
Income from state-owned industrial enterprises
Other revenues
Total Expenditures
Capital Construction
Renovation of existing enterprises[3]
Depreciation funds of state-owned enterprises[5]
Circulating funds to enterprises and credit funds to banks[6]
Aid to communes[7]
Culture, education, public health, and science
Defense
Administrative expenses
Aid to poor regions including old revolutionary-base areas, remote border areas, and poor areas occupied by minority nationalities
Reserve fund
Other expenditures
Budget surplus(+) or deficit (−)

*Conversion to US dollars is based on monthly average exchange rates of 1.854 yuan per US dollar in 1977, 1.682 in 1978, 1.549 in 1979, and 1.500 in 1980.

[1]The decline in revenues in 1980 was attributed to wage increases, higher puchase prices of certain farm products, and an accelerated rate of depreciation. Had these changes not occurred in 1980, revenues would have increased 6 percent to ¥112.69 billion, according to the finance minister's budget report.

[2]Includes ¥3.0 billion capital construction reserve fund.

[3]Expenditures for "tapping the potential of existing enterprises . . . as well as subsidies for the trial manufacture of new products."

[4]Percentage change of expenditures on renovation and circulating funds (¥7.2 + 5.2 billion) compared with similar expenditures in 1978 (¥16.78 billion)

[5]Also includes "profits kept by enterprises to expand production." Expenditures in 1977 and 1978 are included under the category for renovation of existing enterprises.

position with other enterprises.

To sum it up in a word, this will give full play to the strong points or advantages of an enterprise, protect competition, and promote cooperation between enterprises. In this situation, there definitely will be some changes in organization and in the central government.

CBR: Will these reforms result in the abolition of ministries so that corporations may, in fact, take the leading role, while the role of ministries is diminished? And will national foreign trade corporations be phased out if provinces gain autonomy over foreign trade?

Bo: In terms of the overall trend, this is a correct understanding. However, these activities will still be carried out under the direction of the state plan. The function of the ministries will be gradually decreased.

CBR: What are China's future economic development priorities?

Bo: After one or two years of readjustment, we will decide the direction of the futrre development. I think the priorities in the next few years will be agriculture and light industry. We will put more investment in government departments in charge of light industry.

Expressed in another way, we will try to better resolve the production problems of food, clothing, housing, and daily consumer goods. We have not completely worked out our long-term development plans. But, we have made the basic decision on principles.

We will give priority to the development of energy, in particular, the development of coal, electric power, petroleum, and so forth. We have established an energy commission especially for this purpose.

After the establishment of the energy commission, we will gradually change the Ministry of Coal Industry, Ministry of Petroleum Industry, and Ministry of Electric Power into various corporations.

Then we will develop the machine-building industry. Third in line will be communication and transportation industries. That includes railways, airways, waterways, etc. Fourth, we will

"After the establishment of the energy commission, we will gradually change the Ministry of Coal Industry, Ministry of Petroleum Industry, and Ministry of Electric Power into various corporations."

1977		1977 subtotal (percentage of total)	1978		Percentage change 1978 over 1977	1979 Planned		1979 Final		Percentage change final 1979 over 1978	1980 Planned		Percentage change 1980 over final 1979	1980 subtotals (percentage of total)
¥87.45	($47.2)	—	¥112.11	($66.7)	28.2	¥112.0	($72.3)	¥110.33	($71.2)	-1.6	¥106.29[1]	($70.9)	-3.7	—
¥40.05	($21.6)	45.8	¥45.10	($26.8)	12.6	—	—	—	—	—	—	—	—	—
¥32.59	($17.6)	37.3	¥44.00	($26.2)	35.0	—	—	—	—	—	—	—	—	—
¥14.81	($8.0)	16.9	¥23.01	($13.7)	55.4	—	—	—	—	—	—	—	—	—
¥84.35	($45.5)	—	¥111.09	($66.0)	31.7	¥112.0	($72.3)	¥127.39	($82.2)	14.7	¥114.29	($76.2)	-10.3	—
¥29.48	($15.9)	35.0	¥39.50	($23.5)	34.0	¥39.0[2]	($25.2)	¥51.45	($33.2)	30.3	¥37.35	($24.9)	-27.4	32.7
¥13.69	($7.4)	16.2	¥16.78	($10.0)	22.6	¥5.6	($3.6)	¥7.20	($4.6)	-26.1[4]	¥6.98	($4.7)	-3.1	6.1
—	—	—	—	—	—	¥16.0	($10.3)	—	—	—	¥16.00	($10.7)	—	14.0
—	—	—	—	—	—	¥4.9	($3.2)	¥5.20	($3.4)	—	¥3.72	($2.5)	-29.5	3.3
¥5.07	($2.7)	6.0	¥7.70	($4.6)	51.8	¥7.1	($4.6)	¥9.01	($5.8)	17.0	¥7.74	($5.2)	-14.1	6.8
¥9.02	($4.9)	10.7	¥11.27	($6.7)	24.9	¥12.1	($7.8)	¥13.20	($8.5)	17.2	¥14.83	($10.0)	12.3	13.0
¥14.91	($8.0)	17.7	¥16.78	($10.0)	12.6	¥20.2	($13.0)	¥22.27	($14.4)	32.7	¥19.33	($12.9)	-13.2	16.9
¥4.33	($2.3)	5.1	¥4.91	($2.9)	13.3	—	—	¥5.69	($3.7)	15.9	¥5.78	($3.9)	1.6	5.0
—	—	—	—	—	—	—	—	—	—	—	¥0.50	($0.3)	—	0.4
—	—	—	—	—	—	¥1.6	($1.0)	—	—	—	¥1.88	($1.3)	—	1.6
¥7.85	($4.2)	9.3	¥14.15	($8.4)	80.3	¥5.5	($3.6)	¥13.37	($8.6)	-5.5	¥0.18	($0.12)	-98.7	0.2
+¥3.10	($1.7)	—	+¥1.02	($0.6)	—	¥0.0	—	-¥17.06	(-$11.0)	—	-¥8.00	(-$5.3)	—	—

[6]Expenditures in 1977 and 1978 are included under the category for renovation of existing enterprises.
[7]Includes "other operating expenses for agriculture."

SOURCES: Budget figures for 1977–78 are from Finance Minister Zhang Jingfu's report to the second session of the Fifth National People's Congress on June 21, 1979, released by *Xinhua* news agency June 29, 1979. The 1979–80 budget figures are from Finance Minister Wang Bingqian's report to the third session of the Fifth National People's Congress on August 30, 1980, released by *Xinhua* the same day.

Table prepared by Jim Stepanek.

Bo Yibo with National Council Vice-President Jack Dewenter.

CBR: What are China's future priorities on technology imports?

Bo: In order to realize the Four Modernizations in China, we must take existing enterprises as our base and carry out a technical transformation of existing enterprises. Right now in China there are about 400,000 industrial enterprises. What they really lack is crucial equipment and certain advanced technology. We will stress the use of existing enterprises as a base; that is to say, our major efforts will not be in building or in importing complete sets of equipment from foreign countries to start new factories.

So when we consider our imports, we will give priority consideration to importing the needed technology for the technical transformation of existing enterprises, rather than to complete sets of equipment or complete factories. At consider the Ministry of Construction Materials. These are areas on which we will lay emphasis.

CBR: In each of these areas, will the ministries be abolished and replaced by corporations? Will the machine building, railways, and communication ministries also turn into corporations?

Bo: By and large they will go in the same direction, but this is not finally decided and may take a certain amount of time.

CBR: Will there be a communication and transportation commission?

Bo: Yes, that is a possibility. By and large they will go along in the same direction, but it's not finally decided. Important changes in the system and organizational setup must be carefully considered and prudently executed. It is not good to be too hasty.

We will stress the use of existing enterprises as a base; that is to say, our major efforts will not be in building big factories or in importing complete sets of equipment from foreign countries to start new factories.

the same time, while we are importing technology and equipment for the technical transformation of existing enterprises, we will continue to give consideration to cooperative production or joint manufacturing with American enterprises.

For instance, if we want to transform an existing automobile factory, we will import some new technology or crucial equipment for transformation. But we will still make full use of the existing equipment.

In some areas we might establish new factories on a joint venture basis. We are not wholly against the idea. But there will not be many such situations in the near future.

For instance, we are now cooperating with Japan in establishing a new coal-mining project. And we are also talking with the US to see whether we can cooperate on developing hydroelectric power projects and some other projects.

CBR: Perhaps it is better to have fewer enterprises and make them more efficient. I understand that in the field of ball bearings, for example, there are 640 factories in China, but only 49 of them produce over 60 percent of the total output.

Bo: I didn't have time to elaborate on that point. What you said is correct. When I say we are going to organize various corporations, that means we must get these enterprises organized.

CBR: Do you mean to coordinate them?

Bo: I mean, to organize them into the various kinds of corporations I mentioned earlier.

CBR: What military technology does China need from the US?

Bo: Well, you know Vice-Premier Geng Biao visited the US this year, and discussed questions of this kind with the US. I am not too clear on the details, but as for the most advanced technology, the US does not wish to provide us with that at this moment.

CBR: By 1985 is it possible that American trade with China will have the same share as that with Japan?

Bo: Well, I think now it's very difficult to give you a definite answer to your question. But I can put it this way, there will be development between the US and China trade; to look at the long-term prospects, there will be great developments. The development so far is really far from enough.

The question now lies in the fact that we want very much to buy things from the US but we are short of foreign currency. It won't do for us to just keep on buying from the US. We request that the US buy from China and in greater volume. If the US buys more from China, then we will have more hard currency, and then we can buy more from the US.

In my personal view, it is not a fact that the American market doesn't need Chinese commodities. There is a negative balance of trade between the US and China. This situation should be changed. The passage of most favored nation treatment should be a great step forward for the development of trade between our two countries.

The Export-Import Bank of the US promised to make $2 billion in loans available to China. We will give consideration to how we should spend the money. We cannot simply use that $2 billion to buy equipment from the US. If we were only using the $2 billion to buy equipment, then how could we pay back the money?

So we should seriously try to find ways of cooperating, such as in studying the transformation of the existing enterprises, and in the development of energy resources in China.

During my visit to the US this time, I discussed with various corporations we visited the possibility of China manufacturing certain components for them. We might also cooperate with medium-sized and small enterprises or corporations in the United States. There's also the possibility of foreign enterprises investing in China. What I mean really is that trade between us should be a two-way street, not a one-way street.

CBR: In this I think there is general agreement. When the Five-Year Plan, 1981–85, is set in motion in January of next year, will that be the end of the readjustment period?

Bo: Well, the Five-Year Plan will be from 1981 to 1985, but during the first and second year it will still be a readjustment plan. That readjustment will not impede the development of trade with foreign countries. On the contrary, it is precisely due to the readjustment that our economy will continue to develop, and trade with foreign countries will increase.

For instance, readjusting an automobile factory or truck factory will increase trade. Yesterday, I had a discussion with a representative from General Motors on this topic. The McDonnell-Douglas Company is still having discussions with our factories in Shanghai with regard to joint manufacturing of the DC-9. Although we cannot take the whole project as originally suggested, we can at least make some components, such as the door. That is also a form of cooperation.

If large corporations in the US understand this point clearly, and do their share in helping China to develop its capabilities, I think by 1985 it is not at all impossible that trade with the United States may equal or even surpass the share with Japan.

Japan, Western European countries, and the US are really competing to do business with China. The Japanese are really good at conducting business. Now Japan has made available to China $2 billion in overseas development funds. The interest is 3 percent, and payment of interest and principal will begin after ten years, to be paid off within 30 years. China welcomes this type of financing.

CBR: Are you saying that the DC-9 factory and General Motors project will require that kind of financing? Will they come to pass, those factories?

Bo: No. At the moment they involve some technical problems and other questions. I am saying the Japanese are realistic in conducting business.

CBR: May we now discuss the machine building commission?

Bo: The State Machine Building Industry Commission was established to coordinate related ministries of the machine building industry. Its main function now is to guide and assist related ministries in the formulation of an overall plan, as well as the realization of technical advances and the study of how to reform our management system.

CBR: There will be a new corporate China? China will become a little more like America?

Bo: On my present trip I really want to learn from the US, but we will proceed according to practical conditions in China. We have different systems. But on my present trip, I am really getting interested in the organization of your large corporations.

Interview with Li Kaixin

China's Planning System in Transition

Li Kaixin, director of China's State Bureau of Supplies and vice-chairman of the State Planning Commission, visited the United States from October 15 to November 7 as a guest of the National Council. His bureau, little-known to most American companies, is charged with the detailed construction and execution of China's long-range and annual industrial plans under the policy guidance of the State Planning Commission and the State Economic Commission. In this interview with CBR Editor James Stepanek and staff writer Dori Jones on October 18, Li Kaixin also discusses the bureau's vital role in foreign trade planning.

CBR: Many Americans are confused about the way Chinese planners categorize and distribute goods. Can you explain to us how this works and tell us what types of commodities your bureau is in charge of?

Li: Currently, for purposes of circulation, Chinese goods are divided into two main types: "means of livelihood" — by which we mean consumer goods and commodities, which are handled through commercial channels; and "means of production" — meaning producer goods and commodities, which are handled by the state at various levels.

Means of production are further subdivided into three categories. Important, commonly used means of production, such as steel products, are handled by the State Planning Commission and the State Bureau of Supplies; there are 256 kinds of goods in this category. Important means of production with specialized uses, such as power plant equipment, are handled by the various industrial and transportation ministries; altogether there are 581 kinds in this category. The other ordinary means of production are handled by various provinces, municipalities, and autonomous regions. There are over 10,000 goods in this category.

The 256 important commonly used means of production handled by the State Planning Commission and the State Bureau of Supplies are further divided into two categories: one is for fuels, raw materials, and materials, including 101 items such as coal, steel products, nonferrous metals, wood, cement, sulfuric acid, nitric acid, soda ash, rubber, tires, etc. The other category is for machinery and electrical equipment, including 155 items such as machine tools, motors, industrial boilers, automobiles, bearings, and so forth.

CBR: How does the State Bureau go about coordinating the allocation and transportation of those commodities?

Li: Under China's long-term plans for the national economy, that is, the five- and ten-year plans, the State Bureau of Supplies draws up a balance sheet for important production materials. According to the annual plan for the national economy, we also draw up an annual balance sheet for the 256 types of production materials mentioned previously and work out a distribution plan among the ministries and various provinces, municipalities, and autonomous regions. We also coordinate factories that produce the materials and those that need them in order to carry out ordering and supplying of materials. Thus, the State Bureau of Supplies is both an agency in charge of the circulation of production materials and an agency in charge of concrete business transactions.

CBR: What do you mean by "drawing up a balance sheet"?

Li: By drawing up a balance sheet, we refer to the balancing of resources and needs during a future period of time such as a year or five years. "Resources" generally include the quantities produced, imports, and inventories. "Needs" generally include the needs of production, maintenance, capital construction, scientific education, national defense, foreign aid, exports, etc. If in making the balance sheet for the annual plan there occurs a shortage or surplus, we take appropriate measures and try our best to get a balance or a basic balance. In many of the last 20 years, since the late 1950s, there were shortfalls in the production of some materials because production targets were too high and the scale of capital construction was too large. Many other materials were overstocked, causing great waste.

CBR: What is involved in drawing up a distribution plan?

Li: Well, as you know, some Chinese factories are managed by ministries and others by localities. Thus the factories separately submit a plan and an application to the various ministries and localities to fulfill their needs for fuel, raw materials, materials, and machinery and equipment. Then, each ministry and each province, municipality, and autonomous region sums up the needs of all the enterprises beneath it, and submits a plan and an application to the State Planning Commission and the State Bureau of Supplies.

"Material Ordering Conferences . . . bring together factories that need materials and those that produce them in order to sign order-and-supply contracts. . . . Both state-owned and collectively owned enterprises may participate in these biannual conferences. In the future, joint ventures may participate also."

After that, the State Bureau of Supplies reviews the requests, draws up a distribution plan, and hands it over to the National Planning Conference for approval.

National Planning Conferences are held once a year, generally in September or October. After approval, the results are given to each ministry and to each province, municipality, and autonomous region, which then gets back to the local factory that needs the materials.

This method has an important function in guaranteeing the important tasks of production, construction, scientific research, and national defense, but it also involves excessive red tape and inefficiency, and leads to unrealistic expectations.

CBR: We have heard that Chinese enterprises often get together and sign contracts to ensure supplies of important raw materials and capital equipment. Can you tell us how this works and how the State Bureau of Supplies fits into this process?

Li: Certainly. All local factories that need materials must make a detailed ordering list according to the distribution plan. Then the State Bureau of Supplies and the relevant industrial ministries will hold Material Ordering Conferences. These bring together factories that need materials and those that produce them in order to sign order-and-supply contracts. Factories that need a large quantity of materials attend these meetings in order to place an order; if only a small quantity is needed, the enterprise goes to the market and gets it immediately.

Over 70 percent of the products handled by the bureau are allocated at these conferences; these products are directly delivered by the production enterprises to the enterprises that need them. Less than 30 percent of the products are delivered through local supply stations, without contracts being signed. Both state-owned and collectively owned enterprises may participate in these biannual conferences. In the future, joint ventures may participate also.

This method also has some drawbacks, though. Since ordering meetings are held only twice a year, in October or November and in April or May, it is difficult to adapt to changes in production and needs, and this causes some units to be short of materials while other units are overstocked.

CBR: We have read a great deal about the economic reforms discussed at the National People's Congress. Will the role and purpose of the State Bureau change as a result of China's decision to reorganize the country's economic structure to allow greater enterprise autonomy?

Li: As you know, since 1979 our national economy has been carrying out a policy of readjustment, reform, consolidation, and improvement. By readjustment, we mean readjusting the proportionate relations; by reform, we mean reforming the economic structure. These two types of reform are the most important aspects of this policy. The purpose of this policy is to ensure stable, coordinated, and sustained development of our national economy. This is a fundamental change in the guiding thought of our economic conworld farming

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P.O. Box 12901A Overland Park, Kansas 66212 913-888-4664 struction. During the recently concluded third plenary session of the Fifth National People's Congress, the major reforms touched upon were:

• We plan to change the government's overly centralized management structure by expanding the enterprises' power of self-management. We also plan to expand the rights of the workers to participate in the management of the enterprise. In the past, we regulated the economy by one method only—planning.

• We will combine planning with regulation of the economy by the market.

• In the future, we will institute a new policy of relying mainly on economic methods to manage the economy, such as interest rates, taxes, and prices; in the past, we relied mainly on administrative methods. The purpose of this reform is to rationally organize production and distribution of economic resources, to achieve the greatest economic results using the least amount of labor, and to speed up the construction of socialist modernization.

These changes in China's economic structure will mean the supplies system must also undergo major reforms. Henceforth, production materials should be organized and circulated by the market under the guidance of the state plan. The main points of the reform of the supplies system are:

• We will no longer depend on only one method of distribution and allocation, but will use several methods of purchasing and marketing. With the exception of a small number of important production materials that are in short supply (such as fuel, wood, steel products, etc.), which will remain under planned distribution, all other production materials will be bought and sold freely.

• Market forces will be given a greater role in determining commodity circulation. In the past, we organized distribution and allocation based on administrative departments and administrative regions. Formerly, goods produced in one province or by one ministry were frequently distributed only in that province or through the supply channels of that ministry; in the future, goods will be able to cross geographic and ministerial boundaries more easily.

• The prices of production materials should be regulated according to production costs and changes in market supply and demand. Some products should be priced according to the plan. In the case of other products, the price should be allowed to float within a certain range; and other products should be freely priced according to changes in the supply and demand of the market.

• The State Bureau of Supplies and the companies that belong to it should adopt commercial methods and establish buying and selling relationships with the factories that need production materials.

In the future, we will institute a new policy of relying mainly on economic methods to manage the economy, such as interest rates, taxes, and prices; in the past, we relied mainly on administrative methods. The purpose of this reform is to rationally organize production and distribution of economic resources. . . .

State Bureau of Supplies

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Telephone: 89–4990
Director: Li Kaixin
Deputy Directors (ten): Zhang Ruikuan, Hang Kangli, Li Hua, Li Qichang, Liu Binghua, Luo Zeqing, Song Erlian, Tong Zhen, Yang Chunmin, Yu Liaoqu
Directors of the nine companies under the State Bureau of Supplies:
China Metal Materials Company: Song Erlian
China Wood Products Company: Liang Saiming
China Chemicals and Construction Materials Company: Han Kanli
China Fuel Company: Liu Nansheng
China Machinery and Electrical Equipment Company: Li Shanzi, Wen Hua
China Scrap Metal Recovery Company: Wang Zejiu
China Production Materials Service Company: Gu Tiliu
China Storage and Transportation Corporation: Liu Chunzhun
China Container Company: Gan Yumei

SOURCE: State Bureau of Supplies, November 3, 1980.

In a nutshell, we should pay special attention to the function of the law of prices and study how developed countries organize the circulation of major production commodities. We should perfect the socialist economic system and move one step closer to bringing its superiority into play.

CBR: We read in a *Xinhua* report of August 1 that your bureau intends to reduce the number of commodities which are under "planned allocation" from 256 to 68. Has this policy been adopted?

Li: The number of goods to be distributed by planning has not yet been decided. It may be even less than 68.

CBR: We have learned that there are nine companies under the State Bureau of Supplies. What are the responsibilities of these companies? Also, what functions are performed by the bureau's various departments?

Li: The State Bureau of Supplies is a government agency directly under the State Council of the People's Republic of China. Its organizational structure has two divisions. The first contains eight administrative organizations, which include the following: Comprehensive Planning Bureau for Materials; Planning Bureau for Materials for Capital Construction; Planning Bureau for Materials Used for National Defense; Bureau of Scientific and Technological Education; Financial Bureau for Capital Construction; Research Department; and Administrative Office.

These bureaus are mainly responsible for materials planning, business, administration, and management.

The second division contains organizations in charge of concrete business transactions. It includes nine companies: China Metal Materials Company; China Wood Products Company; China Chemicals and Construction Materials Company; China Fuel Company; China Machinery and Electrical Equipment Company; China Scrap Metal Recovery Company; China Production Materials Service Company;

China Storage and Transportation Corporation; and China Container Company.

Each of these companies takes charge of a certain number of the 256 important, commonly used production materials handled by the State Bureau. The companies are responsible for drawing up supply-and-need balance sheets, and distribution plans. They also organize the above-mentioned Material Ordering Conferences.

All industrial and communications ministries, the Ministry of National Defense, and all provinces, municipalities, and autonomous regions have supply bureaus, which are the local counterparts to the State Bureau of Supplies. They are responsible for managing and supplying materials to the enterprises under them. These bureaus are under the dual leadership of the State Bureau and a ministry (if the bureau specializes along industrial lines) or a locality (if it is in charge of enterprises in a certain region). The State Bureau of Supplies together with these local bureaus make up the entire national supply system for production materials.

The State Bureau of Supplies, its nine companies, and local bureaus, employ 430,000 people at the county level and above.

CBR: How many people does China's national supply system employ?

Li: The State Bureau of Supplies, its nine companies, and local bureaus employ 430,000 people at the county level and above. After the system has been reformed, these people will no longer do administrative work, but they will be needed to work in business and marketing. About 1,300 people work in the Beijing headquarters of the State Bureau of Supplies.

CBR: Can you please describe to us the relationship between the State Bureau of Supplies and the State Council?

Li: As I said before, the State Bureau of Supplies is a governmental agency directly under the State Council; it is led by the State Council in both administrative and routine work.

CBR: What is the State Bureau of Supplies' relationship with the State Planning Commission, the State Economic Commission, and the State Import-Export Commission?

Li: Although these three organizations are also directly under the State Council, each one takes responsibility for work in one sector and each one is chaired by a vice-premier. Thus, each commission takes leadership over certain matters with regard to impor-

The State Bureau of Supplies' Role in Foreign Trade

CBR: What is the relationship of your bureau to the Ministry of Foreign Trade? Does the State Bureau of Supplies make import purchase decisions?

Li: China's Ministry of Foreign Trade is also a governmental agency directly under the State Council. It manages and runs the import and export trade of the entire country, including industrial products and agricultural and sideline products, as well as means of livelihood and means of production. For imports and exports of the 256 types of important, commonly used production materials, the Ministry of Foreign Trade and the State Bureau of Supplies work closely together. The steps in the planning process are:

1. On the basis of the conditions of supply and demand, the State Bureau of Supplies decides the total quantity of imports and exports needed at the time the balance sheet is drawn up. This decision must be approved by the State Planning Commission.

2. The State Bureau of Supplies decides the quantity to be distributed to ministries and the provinces, municipalities, and autonomous regions. As long as these decisions conform with the plan, State Planning Commission approval is unnecessary.

3. In the case of imports, each unit that needs to import something submits a detailed list to the relevant company of the State Bureau of Supplies for approval. After evaluation and approval, the request is forwarded to the appropriate corporation of the Ministry of Foreign Trade.

4. On the basis of the approved list, the foreign trade corporation organizes the purchase price, conducts negotiations, and signs a contract.

5. Some of the imported materials are received directly by the unit that needs them; others are received by the relevant company of the Bureau of Supplies and then delivered to the unit.

Currently each year we import millions of tons of steel, hundreds of thousands of tons of nonferrous metals, about a million cubic meters of wood, hundreds of thousands of tons of caustic soda, hundreds of thousands of tons of rubber, and tens of thousands of heavy trucks.

CBR: Does your bureau have the authority to allocate foreign exchange?

Li: The State Bureau of Supplies also directly takes charge of a certain amount of foreign exchange on behalf of the State Planning Commission. This foreign exchange, amounting to about $2 billion a year, is used mainly to import machine parts and components, instruments and meters, and organic chemicals — all used mainly for maintenance. According to the needs of each unit, the Bureau of Supplies approves the use of foreign exchange, examines the ordering list, and hands it over to the relevant foreign trade corporation to organize the imports.

For instance, if the Ministry of Metallurgical Industry has a mine which needs foreign exchange for capital replacement, then the authorities of this mine must report to the Ministry of Metallurgical Industry, which then reports the need to the State Bureau of Supplies. If the Bureau gives its approval, it gives the local mine authorities the amount of foreign exchange necessary for the purchase.

In addition, when there is an exhibition of foreign products in China, an enterprise must apply to the State Bureau of Supplies if it wants to purchase one of the products on display in the exhibition. After the request is examined and approved, the enterprise can buy the product.

As Sino-US trade develops step-by-step, the related work of the State Bureau of Supplies is expanding. For example, we are importing steel products, machinery, instruments and meters, electrical apparatus, and chemical products, among other items, and we are exploring the possibility of importing wood from the US. As our foreign trade structure undergoes further reform, the companies attached to the State Bureau of Supplies will surely play a more important role in foreign trade than in the past.

tant routine work of various ministries and general bureaus. The management of important, commonly used production materials (for which the State Bureau of Supplies is responsible) is one aspect of the national economic plan for the balancing of manpower, materials, financial resources, and foreign exchange; thus, in this important work, the State Bureau of Supplies is under the leadership of the State Planning Commission.

In the important work of allocating the relevant production materials to carry out the plan, the State Bureau of Supplies is under the coordination and leadership of the State Economic Commission and the State Import-Export Commission.

CBR: Many Americans are confused about the functions of the State Price Bureau. Can you tell us how it works with the State Bureau of Supplies?

Li: The State Price Bureau is also a governmental agency directly under the State Council. Its status is the same as that of the State Bureau of Supplies. It is an agency responsible for industrial products, agricultural and sideline products, means of production, and means of livelihood. It has a headquarters staff of over 200 people.

The State Price Bureau is also under the leadership of the State Planning Commission with regard to important matters. The 256 types of production materials handled by the State Bureau of Supplies are sold at fixed prices and are within the scope of the State Price Bureau. It consults with the relevant industrial ministries and with the State Bureau of Supplies to fix the prices. The pricing decisions must be examined by the State Planning Commission and reported to the State Council for final approval.

CBR: One last question. Can you tell us the relationship between your bureau and the various industrial ministries?

Li: The industrial ministries are also governmental agencies directly under the State Council. When the units belonging to them need any of the abovementioned 256 types of production materials, they must apply to the State Bureau of Supplies for permission to distribute the materials. Those of the 256 types of production materials which are produced by units belonging to them are handed over to the State Bureau of Supplies for distribution to the units that need them, according to the regulations.

CBR: Thank you very much, Mr. Li. 焉

Roadblocks to Economic Reform: The Case of Steel

One of the major issues China will face in coming years is how to make the transition from central planning to an economy where market forces play a greater role. The example of steel demonstrates both the advantages of such a move as well as some of the problems that are likely to arise.

Prior to 1979, steel was allocated completely by the State Bureau of Supplies according to the state plan. Beginning that year, however, selected steel enterprises were permitted to market a limited amount of output on their own. The Chongqing, Taiyuan, and Anshan iron and steel complexes, for example, were allowed to market approximately 19, 15, and 5 percent, respectively, of their production, amounting to a total of 415,000 tons of steel products. Prices were allowed to float within certain limits. The Anshan plant even went so far as to open a small retail shop.

Some of the problems the reforms were designed to solve included:

Overstocking. In a nation with a 1979 steel output of 34.4 million tons, fully 20 million tons of products lay in warehouses by the end of the year. In the first half of 1980, the surplus increased by 550,000 tons. Enterprises concentrated only on meeting output targets, not on producing marketable products. Far greater quantities of certain products such as heavy structurals and medium-sized plates were produced than could be consumed, while certain other categories such as welded tubes and wire fell critically short of demand.

Bureaucratic supply channels. End-users frequently are unable to obtain steel through the State Bureau of Supplies even when the items they need are available in nearby depots. This has made it especially difficult for consuming enterprises, which lack direct contact with producers, to obtain products that met their particular specifications.

Irrational distribution. In Chongqing in 1978, enterprises were forced to pay the cost of transportation from other parts of China for 90 percent of their steel consumption when the local Chongqing iron and steel works could have easily supplied 73 percent.

China's market reforms were designed to redress exactly these sorts of problems. But the reforms have given rise to entirely new dilemmas. Most have resulted from growing tensions between factory managers, who wish to market as much output as possible and turn over less to the state at fixed prices, and the State Bureau of Supplies, which wants to receive as large a share as possible of a factory's output in order to meet its quota under the state plan.

To quote the August 1980 issue of the Chinese journal *Economic Management*: ". . . the material departments [the local branches of the State Bureau of Supplies] would rather purchase the products in short supply than those which are stockpiled. They would like to put an enterprise under their control instead of giving the latter any right of marketing its own products."

Another problem is that the quality of the steel allocated under the central plan may begin to decline. This is because steel mills, when given the power to market their products, have tended to improve the variety and quality of items which are sold for profit — usually at higher prices than the state is willing to pay — and at the same time have begun to neglect the quality of steel products sold to the state. As *Economic Management* put it, ". . . enterprises should . . . put those [products] which are included in the state plan ahead of those which are not included . . . . We should not take a laissez-faire attitude and let things go unchecked."

As a result of these problems, it may be some time before mixed planning and free marketing of steel products can be smoothly implemented. Meanwhile, the state has been forced to come up with better plans which reflect market demand. The State Bureau of Supplies and other agencies have been called upon to conduct five and ten-year market forecasts, and to refine the types of targets given to steel enterprises. —MW

Renqiu's Buried Riches

High-yield wells in Renqiu's "buried hill" formation produce one-tenth of China's oil.

Discovered in 1975, the Renqiu oilfield south of Beijing was opened to foreigners for the first time in early 1980. CBR staff writer Dori Jones and Delegations Department Director Stephanie R. Green accompanied two National Council petroleum production delegations that visited Renqiu oilfield in August and October. The following is their combined report. A note of thanks is extended to Forrest J. Garb, president of H.J. Gruy and Associates, and to Denis J. O'Donoghue, president of BWT Technology, for their attention to the technical detail contained in this article.

In six short years, central Hebei Province has been transformed from poor farmland into the site of China's third most productive oilfield — Renqiu. The annual harvest of corn, wheat, sunflowers, and fruits may not have increased significantly, but the oilfield which has grown up in the midst of these crops now produces 10 million metric tons (73 million barrels) of crude oil per year — nearly one-tenth of China's annual output.

Renqiu's production has supplanted that of the better-known Dagang, and is now not far behind China's number two field, Shengli, which produced 18.8 million tons in 1979. Its output is still small compared to China's number one oilfield, Daqing, producer of 50 million tons annually (almost one-half of China's production). Still, Renqiu's importance to China's future should not be underestimated for three reasons:

- Its wells, producing from limestone formations, are the highest-yielding in China, averaging more than 600 tons (4,380 barrels) per day. This is 20 times the output of an average well in older fields, such as Daqing and Shengli, which produce from sandstone formations. Some wells at Renqiu produce as much as 3,000 tons (21,900 barrels) of crude per day, equivalent to the daily output of 100 wells at Daqing.
- Its oil-bearing layers are not deep, allowing relatively easy drilling and production.
- It is not located in an isolated region, as is Daqing, but is a mere 96 miles south of Beijing. Only five of Renqiu's highly productive wells are required to meet the crude oil needs of Beijing's "East is Red" refinery in the Yanshan Petrochemical Complex.

Despite its lightning-quick growth in the last five years, Renqiu's production for this year is projected to be the same as last year's. Chinese officials did not explain this slowdown, but two factors may clarify it. First, the Chinese are focusing on exploration and development of nearby fields and are preparing to put new wells on stream in 1981. Second, the Chinese may be holding down production in order to maintain pressure on the field, thus minimizing the production of water.

Geology

Renqiu is actually only one of a complex of five oilfields currently under development in central Hebei Province. The other, smaller fields surrounding it — Baxian, Hejian, Yongqing, and Yanling — are still under initial construction and have yet to release any production data. All five are operated by the North China (Huabei) branch of the China National Oil and Gas Exploration and Development Corporation, now headquartered at Renqiu.

Renqiu oilfield spreads out over 200 square kilometers (77 square miles) and may contain as many as 40 hydrocarbon accumulations, according to its chief geologist, Zha Quanheng. Thus far, oil overlying water has been found in four major formations. The total area of the geological field is 36,000 square kilometers. Of this total, Chinese geologists can confirm that at least 10,000 square kilometers (3,860 square miles) have oil-bearing structures and estimate that production may ultimately encompass 30,000 square kilometers (11,580 square miles).

Oil was first discovered at Renqiu in June 1975 in Well No. 4, a deep well in the south section. The discovery was described as a "major petrogeological exploration breakthrough," according to the Chinese magazine *Scientific Experiment,* because it was the first large carbonate (limestone) oilfield discovered in China and the oil reservoir rock formation was the thickest known. (It should be noted, however, that the gas fields of Sichuan Province also produce from carbonate zones.)

Chinese geologists call the structure an "ancient crypto-mountain" or "buried hill" formation. The oil is trapped in reservoirs along the tops of four "buried hills" some 11,480 feet (3,500 meters) below the surface. These four structures are similar to but not exactly like anticlinal structures found in the US; they are ancient hills which subsequently were buried by sedimentation.

Most of the oil-bearing strata in the main part of the oilfield date from the Sinian period, 100–200 million years ago. Other strata were formed in the Cambrian and the Ordovician periods, 400–600 million years ago. The oilfield is overlaid by Tertiary sediments. It is located on the east side of a major fault trending northeast to southwest and is approximately 4 to 7 kilometers wide by 50 kilometers long.

The reservoir rocks consist of dolomites and limestones having fractures, vugs (small holes), and sometimes large caverns or voids. This can cause drilling difficulties such as the loss of drilling fluids, and sometimes damage to the drill-strings. The heterogenous perme-

Chinese-built rig at Renqiu.

ability and porosity development of the rock undoubtedly account for widely differing production capabilities between wells. Hot acid stimulation is a common completion process.

Organization

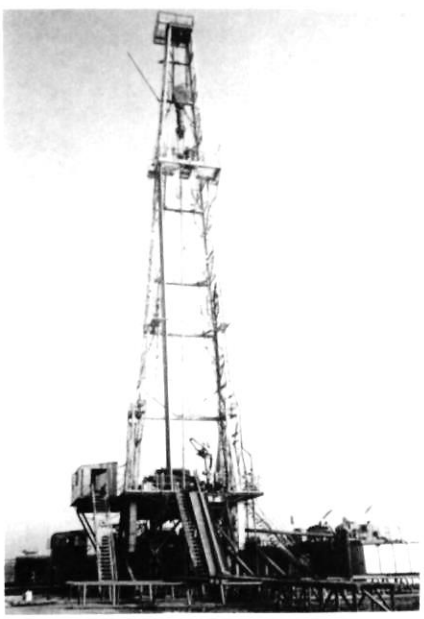
Renqiu, along with the four other smaller Hebei fields, belongs to the North China (Huabei) branch of the China National Oil and Gas Exploration and Development Corporation. Formerly headquartered at Dagang, the branch was transferred to Renqiu last year when its production exceeded Dagang's. Dagang is still staffed with some employees of the North China branch, however.

Huabei's current managing director is Ma Yonglin, while the deputy managing director in charge of equipment is Zhu Zhixian, host for the Council's two delegations. The branch has a staff of 60,000, of whom 5,700 are technicians and 1,000 are engineers or geologists. One-fourth are women. The branch also has a research institute and plans to set up a petroleum college.

Huabei's departments include those for exploration, drilling, production, training, materials supply, and transportation. The drilling department was often referred to as a drilling "company" by engineers who spoke with the delegations.

The North China branch originally maintained close ties to the party and provincial governments of Hebei Province, as did those of Daqing and Shengli. However, as China begins to separate party committees from the country's administrative apparatus, Renqiu has acquired more autonomy from the Hebei Party Committee.

Continental Emsco rig at Renqiu.



Foreign Equipment

According to Renqiu engineers, Renqiu has 88 drilling rigs, only five of which are large-size deep-drilling rigs. Most of the total number are Chinese-made, but at least five are Romanian, with design depths of 5,900, 11,480, 13,120, 19,690, and 22,960 feet. Two are recently delivered Continental Emsco rigs, with design depths of 15,570 feet. Four of the Chinese rigs have Caterpillar diesel engines, as do the Continental Emsco rigs. Other American equipment, including Hydril and Cameron blowout preventers and NL blowout preventer controls, will be used on the Emsco rigs. Imported Reed and Hughes drill bits were also seen at Renqiu.

A large amount of Japanese, West German, and French equipment has also been purchased, according to a Renqiu equipment specialist. The second National Council delegation, which had the opportunity to visit the petroleum institute in October, was impressed with the sophisticated imported equipment in evidence there. This group was visiting Renqiu at the same time that a group of Schlumberger technicians was conducting logging operations there. The chairman of PEMEX, Mexico's national oil company, was also in Renqiu at that time.

Exploration, Drilling, and Production

Renqiu's rigs vary in drilling capacity from 10,500 feet to 23,000 feet; the deepest the Chinese have drilled thus far is 16,400 feet. Most of the oil lies between 10,300 and 11,400 feet beneath the surface in four reservoirs. The pay zones vary in thickness from about 1,215 to 2,790 feet. Due to faulting, the producing formations fall within a 6,500-foot thick interval. Well No. 1, located on the top of the highest buried hill, has exhibited 2,790 feet of thickness.

Renqiu produces light crude, with a high-wax, low-sulfur content, similar to oil from other Chinese fields, but containing up to 20 percent hydrogen sulfide. Its natural gas content is exceptionally low, and the saturation pressure is only some 4 percent. As a result, some wells on the perimeter of the field are water-injected to maintain the reservoir pressure. The producing mechanism for the field is natural water-drive supplemented by water injection. Water production is a problem, as is the case in most fractured and vugular carbonate reservoirs overlying water. Some wells produce as much as 60 percent water, with an average for all wells of about 30 percent. Renqiu's gas, which is 80 percent methane, is dehydrated after being separated at the gathering stations.

Oilfield staff stated that Renqiu has over 50 production wells, of which 29 are actually producing in the north section.

Facts and Figures on Renqiu's Oil

Specific gravity	0.85–0.88 (35.0–29.3° API)
Sulfur content	0.06–0.26%
Wax content	15–26%
Natural gas content	4–6m³ of natural gas per m³ of oil
Methane content in gas	80%
Viscosity	5–10 centipoise
Salinity of formation of water	3,000–4,000 mg per liter
Salt content	1,200 parts per mill

SOURCE: Renqiu oilfield geologists, August and October 1980.

Production Well No. 11

Renqiu's No. 11 well, a typical high-yield well, produces 1,500 tons (about 10,950 barrels) per day. Spudded in October 1975 and finished three months later, it began production in March 1976. In its first months of production, the well averaged 3,963 tons per day on a 40 millimeter choke, but daily output fell to 2,053 tons by March 1980. In an effort to maintain reservoir pressure, the No. 11 well was reoutfitted with a 22 millimeter choke, and by August 1980 it was producing at a daily rate of 1,500 tons. By October, this well had produced 4.3 million tons of oil (31.4 million barrels).

The well is located in the north part of the oilfield, at the apex of the highest buried hill. The oil-bearing sands range from 8,669 to 9,158 feet. The well was drilled slightly beyond this point to a

9,168-foot depth. It produces oil through 7-inch casing from an open-hole completion, without the use of a pump and without water or gas injection.

The well was first drilled with a 15 ¾-inch bit to a depth of 311.7 feet. After setting 13 ⅝-inch casing at 287.5 feet, the well's crew used a 9 ¾-inch bit down to 8,672.7 feet, then set 7-inch casing at 8,648.3 feet. A 6-inch bit was used to the well's final depth of 9,170.3 feet, and 2 ½-inch tubing was hung to a depth of about 9,107.6 feet. This tubing is not currently in use, but will be deployed when production rates fall during the later life of the well.

The wellhead is of Chinese manufacture and has a rating of 3,000 PSI (pounds per square inch). The rest of the equipment is also domestically made. Two women manage the well, which has a high productivity of about 71 barrels per day per PSI. Other data pertaining to the No. 11 well:

- Flowing wellhead pressure: 31 atmospheres (441 PSI).
- Closed-in wellhead pressure: 40 atmospheres (588 PSI).
- Flowing bottom hole pressure: 250 atmospheres (3,674 PSI).
- Closed-in bottom hole pressure: 260 atmospheres (3,822 PSI).
- Bottom hole temperature: 129°C.

No. 2 Gathering Station

Oil from 29 wells in the northern area of the field is transferred to the Renqiu No. 2 Gathering Station, built in January 1976. At the station the crude oil is dehydrated, degassed, analyzed, and metered before being sent by 20-inch pipeline to Beijing, or to Cangzhou, south of Tianjin. About 30,000 tons are sent daily to Beijing, where much of it supplies the Yanshan Petrochemical Complex. Another 10,000 tons a day goes southeast to Cangzhou, where it is mixed with Shengli crude and sent to Nanjing.

The oil, entering the pipeline at 71°C (160°F), cools rapidly to about 31°C (88°F) as it proceeds to Beijing. There are three heating stations along the pipeline to Beijing, which are used only when needed. There is also one booster pump station along the pipeline.

The gathering station has a storage capacity of 80,000 cubic meters in seven tanks. Another 20,000 cubic meter tank is under construction. There are two boilers with a combined capacity of four million kilocalories used for emergency power.

The water removed from the oil is treated and used for water injection. Part of the natural gas removed from the oil is liquefied and the remainder is used as fuel.

The gathering station has a small laboratory for analysis of oil and water. The station reported an average daily pumping rate of 450–550 cubic meters per hour at a pressure of 20 kilograms per square centimeter.

Two Chinese-Built Drilling Rigs

The rig visited by the National Council delegation in August was in the process of drilling its third well in one and one-half years. It was temporarily shut down because of a lost circulation problem. In four months, the 75-member drilling crew had drilled to 11,480 feet, just short of the top of the pay zone at 12,031 feet. The Chinese-built rig has a maximum capability of drilling 13,120 feet. The crew was using mud with a specific gravity of 1.08 (9 lbs. per gallon) after running the casing; before that, the mud weight was 1.3 (10.85 lbs. per gallon). This rig, located near the No. 11 production well, had a single, Chinese-built blowout preventer (BOP)

that was operated manually.

Another drilling rig, No. 214, visited by the second National Council delegation on October 17, had begun drilling nearly a month earlier. Mr. Zhou, the team leader, revealed that six bits had already been used to reach the current depth of 9,150 feet. No blowout preventers were in use. Mounted on a very low substructure, the rig is of Romanian design, and appeared to have a capacity of about 10,000 feet.

Delegates were surprised to see that there were no cuttings in the drilling mud and no drill pipe on the racks, despite the fact that the Chinese said drilling had been going on for one month. The reason for this may have been that the American group arrived on location just after a "trip" (the removal of all the pipe in order to change drill bits), and before the cuttings had surfaced. The mud pit system was made of brick and cement rather than steel, and it was obviously not intended to be moved, unlike American equipment, which is usually mobile. Mud was circulating in the tanks.

A review of the equipment showed two diesel engines of about 500 hp driving through reduction gears into a compound which could contain three engines. Only two engines were installed, which appeared to operate at about 1,500 rpm. The chain and the drive belt adjustments were very loose, and some guards probably had been removed because of this fact.

The mud pump appeared to be patterned after Ideco equipment. While it was difficult to interpret weight on the bit, the rotary was turning at about 70 rpm.

The size of the hole was 9 ¾ inches. The surface casing of 13 ⅜ inches had been set to 427 feet. The team planned to set production casing on October 20, when they were scheduled to reach 9,512 feet. After cementing the casing, they were heading for a total depth of about 9,940 feet.

The drilling fluid was a water-based mud with a specific gravity of 1.25, according to Mr. Zhou. They were using additives including caustic soda, he said, but indicated that the mud did not contain any oil or other lubricant.

Renqiu's American-built Rig

The October delegation visited Continental Emsco model PRC Land Rig A, which has a design depth of 15,570 feet. This is the first rig assembled of the seven Emsco rigs ordered by China in December 1978, just prior to the establishment of US-PRC diplomatic relations. The rig, which cost $4.92 million, was delivered on June 30, 1980, to Xingang port in Tianjin. After spudding its first well on October 3, the rig had drilled to a depth of 5,084 feet at the time of the visit. The well was being drilled to produce not oil but water, which will be treated and used locally.

Portions of a second Emsco rig were still in crates at the site. George Jennings, a senior sales engineer in the international division of Continental Emsco and a member of the second mission, said that at least one of the two rigs now at Renqiu is eventually destined for Xinjiang Province in northwest China. He observed that there were some problems with the rigging up, but that this appeared to be because the Chinese had not yet received all the necessary instructions for assembly. The other five rigs Emsco sold to China will be used on offshore platforms.

Again, although drilling had reached 5,084 feet, the Emsco rig at Renqiu had no blowout preventers in use. A full stock of preventers from both Cameron and Hydril were boxed at the site, but it was not known whether all the controls had been received. Each of the Emsco rigs is to use a Hydril annular BOP and two Cameron ram-type BOPs. Other newly arrived equipment included Caterpillar engines and NL BOP control systems.

Although parts of both the power slip and hand slip systems had not yet been received, thus precluding the use of any slips, the Chinese had innovated a two-elevator system for raising and lowering the pipe to allow the rig to operate.

Jennings commented that the Chinese had altered the chain adjustment linkage to allow the chains to be run very loosely, in the Chinese fashion.

Institute of Geology

The second delegation was given a brief tour through Huabei's local technical institute, led by its director, Ji Yongchang. The laboratories were impressive, equipped with a chromatograph, an infrared spectrometer, and a very modern mass spectrometer connected to a medium-sized minicomputer. Some of the labs had cathode-ray tube magnetic tape and hard copy printer terminals. Most of the electronics were of Japanese manufacture. Ensuing discussions revealed that the equipment is being applied to the study of the formations in central Hebei to determine source beds, not reservoir rock. 完

China's Sagging Oil Production

The discovery of Renqiu and other high-yield oilfields, such as Liaohe in Liaoning Province, helped boost China's oil production by 20–25 percent per year in the early and mid-1970s. But that growth has slowed considerably in recent years: from 11.1 percent in 1978 to only 1.9 percent in 1979. This dramatic slowdown occurred despite an increase of 8 percent in production capacity in 1979, which means that new wells going into production barely compensate for the decline in output of old wells.

China's oil output is not expected to grow at all this year, holding steady at about 106 million tons. Yao Yilin, the new chairman of China's State Planning Commission, told the National People's Congress on August 30 that oil production is expected to rise only 0.9 percent in 1981. He told Japanese officials in September that China's oil production will fall and keep falling until the late 1980s. This decline, coupled with the growing energy needs of China's economy, has caused the Chinese to scale down their promises of oil exports to Japan.

Chinese Vice-Premier Yü Qiuli told Japan as early as April this year that China would have difficulty fulfilling its 1981 crude oil export quota as called for in the eight-year Sino-Japanese trade agreement signed in February 1978. In that agreement, China promised to supply Japan 8 million tons of crude in 1980, 9.5 million tons in 1981, and 15 million tons in 1982. China plans to fulfill its 1980 commitment. But in September negotiations, China proposed to increase oil exports only to about 8.3 million tons in both 1981 and 1982, falling short of its pledge by 12.6 percent and 44.7 percent in those two years. In June Vice-Premier Gu Mu offered to cover the temporary shortfall by supplying naphtha and other oil products. Since May 16 China has charged Japan $34.625 per barrel of crude oil; effective September 1, the price was lowered to $33.125 per barrel. —DJ

China's US Sales Strategy: The First Steps

Carol S. Goldsmith

Beginning with a round of formal introductions and much shaking of hands, most meetings between US and Chinese business persons end on a predictable note. As the American chief executive concludes his familiar sales refrain, once again extolling the virtues of the company line, the Chinese smile politely, and invariably reply:

"Yes, we are very interested in your products. And we trust you will help us earn the foreign exchange we must have to buy them by purchasing *our* goods."

The Chinese learn very quickly.

As time goes by they seem to miss fewer and fewer opportunities to promote their wares. The PRC's recently announced $17 billion budget deficit, plus a $2 billion trade deficit ($1.1 billion with the US alone) for 1979 have underscored the pressing need to spend less and earn more in every category of economic endeavor, including foreign trade.

Even more important was the decision in 1979 to allow provinces, cities, and certain factories to negotiate their own foreign trade contracts — the target date for implementing the reforms in all 29 provinces is January 1, 1981 — a historic step which has prompted a surge of interest in marketing strategies.

The Chinese are quickly learning that they must manufacture the kinds of merchandise Westerners want, and then sell them in a language buyers understand.

Design consultation with foreign firms is bringing an ever-greater awareness of American tastes to China's factories, and is becoming a more frequent feature of factory life, especially for textiles, arts, and crafts producers. J.C. Penney, for instance, designs and purchases at least "several million dollars worth" of shirts and sweaters from several CHINATEX branches each year, according to Bob Boulogne, Penney's director of international buying.

With one hand steadied on the importers' shoulders, China is taking its first steps in the US market. Its recently announced trade deficit convinced leaders China must sell more in order to buy.

Trans-Ocean Import Company of New York, a major worldwide carpet importer, designs to its own specifications about 75–80 percent of the goods it buys from China, mostly from the CHINATUHSU and ARTCHINA branches. Purchases by each company are made from a central price list, and no design consultation fees are charged by the Chinese. One reason for the "free" service, says Trans-Ocean General Manager Gene Rostov: "They value our advice, and they want to learn."

The art of selling: Bloomingdale's ad turns the picturesque into the profitable.

New-Wave Delegations

To the Chinese mind, face-to-face meetings always offered the best means of surveying the market and gauging what commodities should be bought from whom.

Figures from the National Council for US-China Trade have shown a steady climb in Chinese selling delegations visiting the United States. In 1978 the Council hosted 11 selling delegations from China; in 1979, 15 delegations; and by the end of this year probably 20 selling groups will visit the US. There are indications that non-Council delegations have also increased.

"This year many more export and research groups have been coming here," remarks Li Wei, first secretary of the Chinese Embassy in Washington, DC, for the simple reason that such delegations are "one of the most important ways to research the market and push sales."

Yet more studying than selling often occurs. With the general exception of arts and crafts and textile delegations, US executives have noted that these delegations are merely learning what a particular market is all about.

A case in point: the CEROILS frozen foods delegation that visited early this summer. Hugh Symons, president of the American Frozen Foods Institute, characterized the group as a "starting-from-scratch" mission, crisscrossing the country to visit the facilities of Green Giant, Morton Frozen Foods, Minute Maid, and even Disney World's snack bars, to determine how some of its canned foods, fruits, game, and other products could be exported to the US.

Both Symons and Bob Pederson, chairman of OreIda (the frozen potatoes subsidiary of HJ Heinz), expressed surprise at the Chinese's wide-eyed reactions to what they saw, adding the CEROILS people have quite a few years' worth of marketing studies and processing/packaging development ahead before they can seriously penetrate the US market.

"When you talk about market surveys," remarked Pederson, "they're so far behind us and the Japanese I don't think they know what we're talking about."

PRC Representatives

The center for China's commercial activity in the US is its foreign trade corporations (FTCs) in New York City. Housed in a former Sheraton just yards from the Hudson River, 25 Chinese represent the nine corporations that have made their way to Manhattan since 1979 *(see box)*.

Their job is a multifaceted one. The two to four representatives that staff each FTC are charged with the formidable tasks of exploring the market for their various goods, contacting potential clients, fielding questions from US businesses, and laying the groundwork for a future role that no one seems too clear about, given the shifting trade structures in China.

Li Xiande, one of three representatives for China's machinery import-export corporation, MACHIMPEX, shares a nagging problem with many of his colleagues in trying to promote the corporation's array of agricultural, textile, transportation, and mining machinery and parts. "Our machinery up to now is not so sophisticated," Li admits, "and we find it's difficult to enter the United States market with our initial products."

An understatement, to be sure. MACHIMPEX has learned quickly that many of its machines are considered relics by American standards, and its secondary products — such as castings,

PRC Trade Representatives in the US

Washington, DC Embassy of the People's Republic of China 2300 Connecticut Ave., NW Washington, DC 20008	**Commercial Officers** Peng Jinbo: minister-counselor and head of commercial section Li Wei: first secretary and deputy head of commercial section Commercial section telephone: (202) 328–2520
Houston Consulate General of the People's Republic of China 3417 Montrose Blvd. Houston, TX 77066	Song Guibao: consul and head of commercial section Zhang Tao: consul attaché, commercial section Commercial section telephone: (713) 524–0778, 528–0780
New York City Permanent Mission of the People's Republic of China to the United Nations 520 12th Ave. New York, NY 10036	
San Francisco Consulate General of the People's Republic of China 1450 Laguna St. San Francisco, CA 94115	Guo Yimin: consul and head of commercial section Chen Mingyuan: consul attaché, commercial section Commercial section telephone: (415) 563–4858
Foreign Trade Corporation Representatives	
ARTCHINA (China National Arts and Crafts Import and Export Corporation)	New York: Song Guofan, Wang Chengyun, Cao Yihe, Xu Liejun, (212) 279–4271
CCPIT (China Council for the Promotion of International Trade)	Washington, DC: Gao Daozhou, (202) 328–2522
CEROILS (China National Cereals, Oils and Foodstuffs Import and Export Corporation)	New York: Wang Yongkang, Liu Fuchun, (212) 695–8037, 7961 Washington, DC: Zhou Shanxue, staff member, (202) 328–2527

machine parts, and components — face stiff competition from traditional suppliers. Confides Li, "We have contacted many American manufacturers. We are pushing ourselves, and up to now the results are still very small."

Some representatives admit they're having enough trouble staying on top of government and industry changes in their *own* country, let alone in ours. Most feel isolated in the United States, distanced from data that could affect their work. Inquiries into new joint ventures or countertrade deals, for instance, often produce little more information than press accounts.

A select few FTCs have garnered enough independence to sign contracts in their own names; ARTCHINA and MACHIMPEX are two. Some have very limited autonomy that could be yanked away at any moment by new or changing trade bodies. On the whole, these branches must await word from their main offices before proceeding on a given venture.

At times the divisions of authority bring sister branches into direct competition. ARTCHINA's Beijing branch, for example, is operating a joint venture in the United States with Trinity Import-Export Corporation, a Japanese corporation of overseas Chinese. The venture, called China Resources Products (USA) Ltd., in September opened a large, plush showroom at 1133 Avenue of the Americas in New York, where it sells directly to the public an impressive array of Chinese sculpture, jewelry, carpets, and carvings — much to the dismay of the New York ARTCHINA's Wang Chengyung.

Wang echoes the concern of most PRC representatives that joint ventures could undercut the American importers, with whom they wish to cooperate rather than compete. When asked if his office has any say in the matter when such conflicts arise, he answers, intriguingly, "No, not yet."

CHINATEX (China National Textiles Import and Export Corporation)	Washington, DC: Huang Jianmo, Sun Yonglun, (202) 328–2527
CHINATUHSU (China National Native Produce and Animal By-products Import and Export Corporation)	New York: Feng Guangshun, Jin Meisheng, Wu Wenan, (212) 279–4275 Washington, DC: Ms. Li Guozhen, (202) 328–2520
INSTRIMPEX (China National Machinery and Equipment Import and Export Corporation)	New York: Sun Kuitang, Zhu Yumin, (212) 279–4298
INDUSTRY (China National Light Industrial Products Import and Export Corporation)	New York: Zhu Jinwei, (212) 279–4297 Washington, DC: Le Xin, (202) 328–2526
INSTRIMPEX (China National Instruments Import and Export Corporation)	New York: Xu Bin, Zhang Yinglong, (212) 695–7876 Washington, DC: Li Shifang, attaché, (202) 328–2523
MINMETALS (China National Metals and Minerals Import and Export Corporation)	New York: Shu Guoyu, Gu Minkang, Yuan Huanxin, Li Shunxing, (212) 279–4272 Washington, DC: Huang Yaozu, (202) 328–2521
SINOCHEM (China National Chemicals Import and Export Corporation)	New York: Tang Xueliang, Shen Zuming, Wu Shaomeng, (212) 279–4273
TECHIMPORT (China National Technical Import Corporation)	Washington, DC: Guo Ji, Huang Yangxuan, Luo Jizhong, Dong Siqi, (202) 328–2547
Shipping and Transportation	Washington, DC: Ms. Zhang Xianglan, (202) 328–2521
Technical Exchange	Washington, DC: Dong Yingjie, (202) 325–2522
MACHIMPEX (China National Machinery Import and Export Corporation)	New York: Huang Qingtang, Li Xiande, Wang Hongzhi, (212) 695–7792 Washington, DC: Luo Kaifu, (202) 328–2523

The FDA and Other 'Afflictions'

After running headlong into countless legal snarls with the US regulatory agencies, reports on how hard it is to trade with China must amaze the Chinese here. CHINATUHSU in particular, has encountered much trouble in exporting certain items to the US, such as canned goods, herbal medicines, and especially menthol, which is currently under Commerce Department investigation for pricing at less than market value. One straight-laced government body, the Food and Drug Administration, has not taken to the idea of Chinese leaves and herbs entering this market sporting cure-all claims on the labels. The Chinese are making some efforts to amend; their new package for royal jelly promotes it as a delicious food product rather than as a cure for everything from insomnia and hepatitis to "senility and debility after convalescence and childbirth." But on the whole they can't understand what the fuss is about. Villagers, after all, have been producing and using these folk medicines for centuries with no problem, notes a CHINATUHSU New York representative.

The official punctuates nearly every sentence with a simple plea: "Tell your readers about the FDA and Commerce Department and explain what China is up against. They don't understand."

That such problems must be resolved through formal channels instead of over tea is a foreign idea to the Chinese. They have little experience in legal maneuvering, and have little reason to. Small wonder, then, at their surprise when an issue like restricting China's menthol exports requires the aid of a law firm, monopolizes all his staff's time, by Feng's account, and yet produces few tangible results.

To avoid such problems, Dave Mathis of Pfizer International recommends that China designate an American manufacturer either to market the goods for the Chinese or to sell it under the company label, thus sidestepping two obstacles: who actually represents the Chinese, and meeting FDA standards.

China has for the most part rejected such advice, except when some technology exchange sweetens the pot. The Allen Group, a large dealer in automotive equipment and parts, signed a countertrade deal with EQUIMPEX in February whereby the New York firm provides its designs for hydraulic jacks, buys back the jacks in cash, sells them in the US and Canada under an exclusive arrangement, and receives payment when EQUIMPEX purchases an equivalent value of goods or services *from* or *through* Allen. The term "through" connotes Allen's uncharacteristic role as sales agent. According to Allen's Terry Doyle, in cases where the firm might upgrade EQUIMPEX production (talks have centered on production of automotive thermostats, high-speed radiators, and automotive air conditioning), Allen could market the goods for EQUIMPEX on a straight commission — thus bringing EQUIMPEX the benefits of both new technology and good-old American salesmanship.

US-China Grain Agreement

US farmers are assured annual grain sales to China of 6–9 million tons (of which roughly 15–20 percent will be corn and the rest wheat) under the terms of a 1981–84 grain agreement signed in Beijing October 22.

The historic four-year agreement not only removes the US from the position of being a "residual" grain supplier and assures the US of more than $1 billion in annual export revenues, but it assures for the first time that the volume of US wheat exports will surpass that of China's other traditional suppliers. The US will supply 60 percent of China's grain imports totaling 15 million tons the 1980–81 marketing year. This leaves 6 million tons to be divided up between China's four other suppliers, who have also signed three-year wheat agreements with China since 1978, calling for the following annual deliveries:

Country	Expiration Date	Annual exports to China under wheat agreement (million m t)
Canada	June 1982	2.8–3.5
Australia	November 1981	2.0–2.5
Argentina	December 1984	0.7–0.9
France*	December 1983	0.5–0.7

The stabilization of China's demand for US grain also will facilitate the planning of crop production in the US and eliminate the element of uncertainty that has characterized US-China grain trade since it resumed in 1972. Moreover, it demonstrates the two countries' mutual desire to stabilize long-term trade and strengthen overall economic relations.

Actual sales will be negotiated between private US grain companies and the China National Cereals, Oils, and Foodstuffs Import and Export Corporation (CEROILS). The value of each sale will be determined by prevailing market prices. If sales in addition to wheat and corn are included, the value of US agricultural exports to the PRC is likely to exceed $2 billion in each of the next four years.

After the agreement takes effect January 1, 1981, Beijing must notify Washington in order to buy US grain in excess of the 9 million ton ceiling. But official consultations are necessary if either country wants to lower the level of grain trade below the 6 million ton minimum stipulated in the accord. In the latter instance, the initiating party must reduce its grain trade with its other foreign partners proportionately. This provision is especially disturbing to Australia and Canada. Both countries are also worried about the size of the Chinese market for grain once their current agreements expire. —KB

*The three-year agreement signed in late September specifies a ceiling of 1 million tons.

Promotions: Advertising and Trade Fairs

"When you think of the Chinese in an advertising and promotion sense," says a top New York ad man, "you could think of us before we became so sophisticated in marketing techniques — around the turn of the century. Instead of placing an ad we'd try the state fairs, booths, then go to retail stores. Advertising was more word of mouth," he observes. "The Chinese are now at the exhibition stage [of promoting their goods]. And it's a good idea, because it gives the Chinese the ability to show off many different goods under the label of a Chinese exhibition."

In July of 1979, three top US ad firms journeyed to Beijing and Shanghai to discuss how the firms might lend their talents to China's promotional efforts. "But," as Clay Timon of Doyle Dane Bernbach put it, "it turned out to be a Marketing and Advertising 101 course."

The Chinese became fascinated with even the simple 16 mm film and slide projectors the ad firms brought along. Timon reports that every time he demonstrated the One-step camera from Polaroid, a DDB client, he ended up leaving behind the cameras, flash bulbs, and film. Before long it became apparent that the Chinese have much work to do in product development, pricing, and distribution before they get around to advertising, says NW Ayer's Jerry Jordan. In the short-term, promotion undoubtedly will remain the province of US importers.

A clever few are making the most of that fact. Shamash and Sons, the largest silk importer in the US, each year has been strengthening a neat arrangement with CHINATEX that benefits both. CHINATEX grants his firm a small promotion allowance in the form of a discount, which Jack Shamash explains may be used in any way he chooses to promote Chinese silk. Full-page ads showing long-legged lovelies adorned in silk carry the Shamash and Sons logo off to one side. Trade magazine stories detailing the history of sericulture and tying in the Shamash line now turn up in such noted industry publications as *American Fabrics*.

Even greater attention has been focused on China through the use of advertising as an adjunct to special trade events. For example, the huge three-pronged exhibition of Chinese goods put on by the US-China Business Development Corporation attracted a great deal of notice as it crossed the country from San Francisco to New York this fall. (Not all of it flattering, however. Some attendees found the exhibition disorganized, and many items on display had not met FDA standards.) In contrast, Bloomingdale's brought the art of sales and promotion to a new high with the $14 million hoopla surrounding its recent merchandise exhibition, "China: Heralding the Dawn of a New Era."

More specialized trade shows also are appearing on the China trade scene. This past summer Hubei Province used its special friendship with sister-state Ohio to secure a display booth at the Ohio State Fair. Tianjin has found a US forum for its goods through a recent New York exhibition sponsored by Zucker Products Corporation. The arts and crafts importer arranged a trade-off with the municipality by displaying 1,000 Tianjin exports, only 10 percent of which is handled by Zucker. The reason for taking on the expense:

"Tianjin thinks it still needs aid and an introduction to the American market," says Vice-President Margo Zucker Mindich. And "look[ing] at it in the most selfish way, if we needed an exclusivity somewhere on down the road we could ask. Eventually it all comes back."

That China is doing much more attending than arranging of trade fairs here fits in with its cautious export drive. Observing how others use specialized exhibitions, and experimenting on its own turf, is the country's immediate aim. Already there has been a significant downgrading of the twice-yearly Guangzhou Fair in favor of specialized minifairs. Last year about 20 such fairs were scheduled; by the end of this year close to 30 were expected to have taken place.

It's the old story of dealing directly with the people you know best. And it's one the Chinese hope to repeat through new selling delegations, sister-state relations, and special exhibitions here and in China. Measured strictly in dollars, the success of these moves has been modest so far. Li Wei of the PRC Embassy says his country's exports to the US thus far in 1980 have increased by only $100 million or so over last year's $600 million high, putting the PRC at a "three-to-one" disadvantage in terms of China's trade balance with the US. But in terms of making a concerted export drive, it's definitely a start.

And as Li Xiande acknowledges, "We have not really entered the US market — not yet." 完

Who's Who in Chinese Advertising

The increased stress on advertising in China appears to have begun officially in January 1979 when the government restored the Shanghai Advertising Corporation. Within a year both Beijing Advertising Corporation and Tianjin Advertising Corporation got their starts, and most recently local agencies such as the Suzhou and Nanjing Advertising Corporation, and specialized agencies like the China Television Service, have joined the growing network.

But there is no resemblance between these corporations and US advertising agencies. Even though Chinese ad corporations are free to work on all aspects of advertising with foreign firms outside China, *inside* the country they merely sell media space on behalf of client Chinese newspapers, magazines, television and radio stations, and billboard owners.

Following is a list of the principal local and specialized advertising agencies in the PRC:

Local Agencies

Beijing Advertising Corporation (BAC)
Address: 190 Inner Chao Yang Men Jie, Beijing
Cable: ADVERCORP BEIJING
Telephone: 553326 (Business Department tel.: 89072, ext. 120 in the Xi Yuan Hotel)
General Manager: Wang Daling
Services Provided:

- advertising abroad of Chinese export commodities in foreign newspapers, magazines, billboards, posters, slides, short films, and television;
- selling advertising space in China for foreign manufacturers, traders, and advertising agencies;
- art designing and printing of various trademarks, packages, catalogues, pictorials, calendars for various Chinese and foreign commodities;
- displays of Chinese export commodities and foreign commodities exhibited in Beijing;
- photographing and processing publicity pictures and television film advertising for various commodities; and
- advertising in broadcasts, show-windows, cinema (slides, short films), inside buses (trolley buses, trains, passenger ships), exhibitions, outdoor advertisements (billboards, posters, neon lights), indoor advertisements (pendant neon lights), as well as mailing and gift advertisements.

Shanghai Advertising Corporation (SAC)
Address: 97 Yuan Ming Yuan Lu, Shanghai
Cable: ADVERCORP SHANGHAI
Telephone: 213166
General Manager: Mao Yushu
Services Provided:

- advertising Chinese export commodities in foreign newspapers, magazines, billboards, posters, slides, films, and television;
- commercial advertising in China for foreign manufacturers or traders;
- art design and printing of trademarks, packaging, catalogues, pictorial magazines, brochures, and calendars;
- display of Chinese export commodities and foreign commodities exhibited in Shanghai;
- design and production of mannequins and display stands for exhibitions;
- photography and production of advertising films and short features for television.

Hong Kong Agent: China Advertising Company (not SAC's exclusive agent)
Address: Star House, Kowloon, Hong Kong
Telephone: 3-672902, 3-672981, 3-688408, 3-689086

Tianjin Advertising Corporation
Address: 345 Jie Fang Lu, Tianjin
Cable: TJAC TIANJIN
Telephone: 35448
General Manager: Jiang Qingfen
Services Provided:

- advertising for Tianjin export commodities in foreign countries and foreign manufacturers or traders in Tianjin in newspapers, magazines, radio, television, cinema (slides, short films), window displays, public transportation, billboards, lantern showcases, exhibitions, neon lights, and parks.

Other Local Agencies

Amoy (Xiamen) Advertising Corporation
Address: 18 Huyuan Lu, Second Floor, Xiamen
Cable: 7325

Telephone: 4024

Anhui Advertising Company
Address: c/o Provincial People's Government, Anhui

China Advertising Corporation
To be established in a state-owned partnership controlled by the China Resources Company, Hong Kong.

Guangdong Advertising Corporation
Address: 2 Qiaoguang Lu, Guangzhou, Guangdong

Guangzhou Advertising Corporation (GAC)
Address: c/o Municipal People's Government, Guangzhou

Hubei Advertising Company
Address: c/o Hubei Foreign Trade Bureau, Wuhan, Hubei

Nanjing Advertising Company
Address: 199 Zhongshan Lu, Nanjing, Jiangsu
Cable: 4242 NANJING

Suzhou Advertising Company
Address: c/o Provincial People's Government, Suzhou

Specialized Advertising Agencies

China Broadcasting Service Company
Address: Broadcasting Building, 2 Fuxingmen Wai, Beijing
Cable: 0731 BEIJING
Telephone: 868581, ext. 2522
Services Provided:

- domestic and foreign advertisements for the Central People's Broadcasting Station and the *Guangbo Dianshi Jiemu Bao (Broadcast and TV Program Journal)*.

China Railway Foreign Service Corporation
Aegis: Ministry of Railways
Address: c/o Ministry of Railways, 10 Fuxing Lu, Fuxingmen Wai, Beijing
Services Provided:

- commercial advertisements for foreign customers on Chinese railways, in railway stations, or in railway publications and magazines;
- tourist activities and mobile commodity exhibitions;
- technical discussions with foreign engineers; and
- translating railway data in English, French, German, Japanese, or Russian.

Branch Office: Guangzhou Railway Administration Office, Kowloon, Hong Kong.

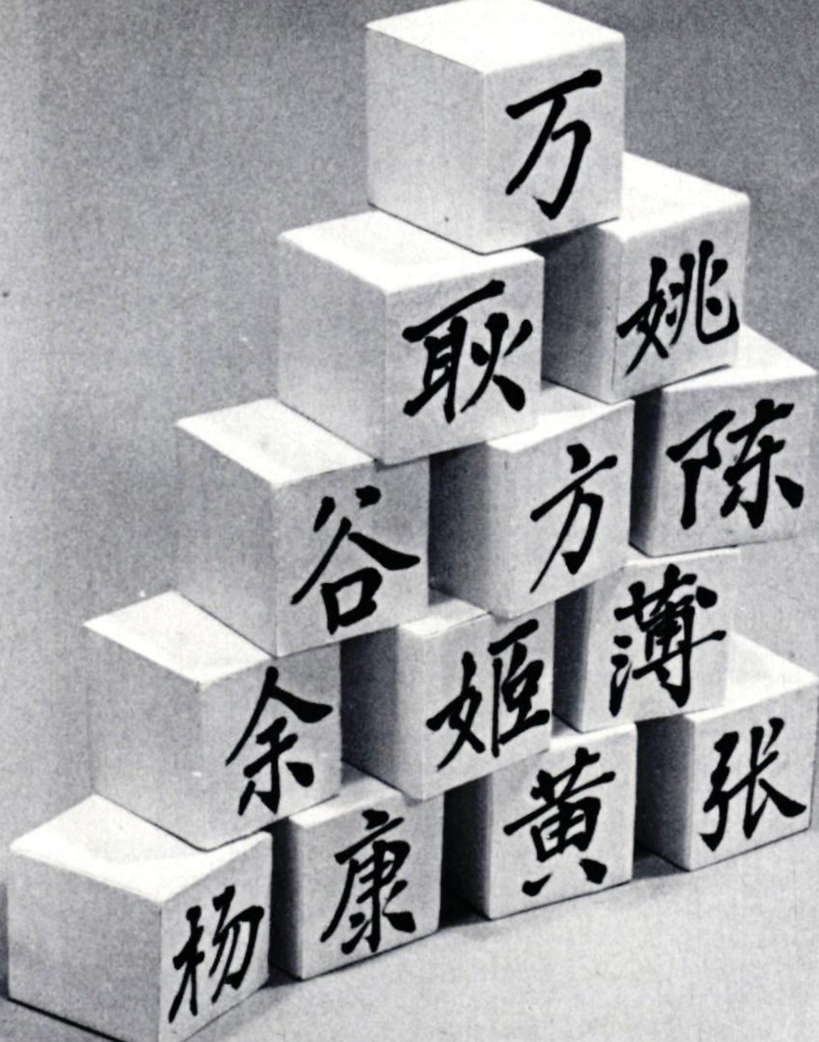
China Television Service
Address: Broadcasting Building, 2 Fuxingmen Wai, Beijing
Cable: CCTV BEIJING
Telex: 8581
Telephone: 866147 (International Business Department tel.: 668541, ext. 425)
Services Provided:

- Chinese and foreign TV advertisements for broadcast on the two channels of CCTV, including making video ads;
- producing TV films and video programs through joint programs with foreign TV organizations or commercial organizations;
- selling and purchasing TV films and video programs;
- TV program transmissions through international satellites;
- shooting, developing, recording, translating, and dubbing 16mm color films;
- maintaining and repairing 16mm TV cameras;
- providing technical services to foreign TV crews shooting films in China.

China Television Service apparently has assigned a small Chicago firm, Transplex, Inc., headed by Waysun Liao, as its sole agent for North and South America, Britain, France, and Australia. The agreement reportedly allots Transplex, Inc., five of the total 15 minutes per day of commercial advertising on Chinese Television.

Jiangsu Broadcasting Station
Address: 132 Dong Zhongshan Lu, Nanjing, Jiangsu Province
Cable: 2330 NANJING

—Kathryn Dewenter 完



Building China's New Leadership

Christopher M. Clarke

Supporters of Deng Xiaoping continued to flourish, while opponents or potential rivals saw their power further eroded. This was the outcome of China's recent third session of the Fifth National People's Congress (NPC) held in Beijing August 30 to September 10, 1980. Economically, the policies of "readjustment, restructuring, consolidation, and improvement" were retained. The policy of importing huge and expensive projects like the Baoshan iron and steel complex was criticized, and a renewed emphasis was given to modest projects involving flexible methods of payment like compensation trade. Socially, emphasis on rural areas, ethnic minorities, and religious communities was reaffirmed. Legally, more victims of the period of "Lin Biao and the Gang of Four" were rehabilitated, and new laws were promulgated.

Within the context of these continuing priorities, however, a number of interesting undercurrents are discernible. During the early 1970s, a new group of leaders emerged who had risen through the petrochemical industry apparatus. Heading this "energy clique" was Yü Qiuli. Yü was a close associate of Zhou Enlai, and even secured the protection of Mao himself during the Cultural Revolution. It is widely known that Mao held up the Daqing oilfield as the model for industry.

Rising with Yü in 1978 was his longtime subordinate in the petrochemical apparatus, Kang Shien. Yü headed the powerful State Planning Commission, while Kang directed work at the equally important State Economic Commission. Xiao Han, vice-minister of coal industry since 1975, became minister in 1977, while former vice-ministers of petrochemicals, Song Zhenming and Sun Jingwen became, respectively, ministers of petroleum and chemicals. In addition, Tang Ke, former vice-minister of petrochemicals and long-time cadre in the petroleum apparatus, became minister of metallurgy, and Zhang Zhen, yet another former vice-minister of the petrochemical ministry, became minister of the Fifth Ministry of Machine Building (*see chart*).

Early 1980 saw the beginning of the decline of this "energy clique." Xiao Han, minister in charge of the trouble-plagued coal industry, was the first to lose his job. The coal industry was slow in recovering from the natural and man-made disasters of the 1976–78 period; moreover, in early 1978 Xiao unveiled a grandiose long-range development plan, which he was apparently unable to fulfill. In addition, Xiao, a former provincial party and government official in Guangxi (in China's coal-poor south) urged the development of coal production in the southern provinces. His superiors opted for maximum concentration on the rich resources of north China. He also favored the development of existing mines with wholesale mechanization to occur by 1987. By contrast, his successor Gao Yangwen advocates the design

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and construction of new mines "according to the requirements of comprehensively mechanized coal mining," according to a March 21 *Beijing Review* article.

By the time of the National People's Congress meetings in September, three more members of the energy clique were in serious trouble. Song Zhenming, former vice-minister of petrochemicals and former high official at Daqing, was held responsible for covering up an oil rig accident in Bohai Bay in November 1979 in which 72 workers were killed. Because of the same incident, Vice-Premier Kang Shien was publicly reprimanded for his handling of the affair. Moreover, the Ministry of Petroleum's leadership methods, which had been praised by Mao in 1964 and by his successors in 1977 and 1978, were now denounced. Petroleum officials were said to act like "tigers whose backsides no one dares to touch." They were accused of shielding one another, and Western reporters in Beijing were told that Kang was reprimanded because he "did not take this [oil rig] accident seriously nor deal with it promptly, although he is directly responsible for leading this work on behalf of the State Council."

"Energy Clique" Head Demoted

While Song was being fired and Kang reprimanded, the head tiger of the energy clique was demoted. Yü Qiuli, who appeared to side with Xiao Han in 1979, and who could not escape some responsibility (or at least guilt by association) for the acts of Kang and Song,

China's "Energy Clique" (as of late 1979)

Yü Qiuli	Minister-in-charge, State Planning Commission
Kang Shien	Minister-in-charge, State Economic Commission
Xiao Han	Minister of Coal
Song Zhenming	Minister of Petroleum
Sun Jingwen	Minister of Chemicals
Tang Ke	Minister of Metallurgy
Zhang Zhen	Minister of Machine Building V

was shifted from chairmanship of the State Planning Commission to head the newly formed State Energy Commission, which has been given the responsibility to:

- study and formulate principles, policies, laws, and regulations for energy in China;
- work out long-range programs and annual plans for energy and put them into effect;
- organize construction of large-scale comprehensive energy bases in the country;
- engage in scientific research, experiment with and develop new sources of energy; and
- study and disseminate new technologies for exploiting and saving energy, in cooperation with other departments concerned.

While Yü's move to the State Energy Commission is certainly not one of disgrace, it is widely seen as a diminution of his responsibilities and probably of his power.

Another energy clique member also ran into difficulties at the NPC session. Tang Ke, minister of metallurgy, retained his position but was severely taken to task by the NPC deputies for his handling of work on the Baoshan iron and steel project. According to a Xinhua report of the meeting, it "started with four deputies firing one question after another at the minister. They said that since the project requires enormous investment, people are naturally concerned about such questions as how much it will cost, how much it will produce, whether it pays to build so big a product at present, and whether the site was selected correctly."

Tang defended the project as entirely justifiable, economically sound, and environmentally correct. He did, however, admit some faults in planning and some waste of funds. In view of the eclipse of other members of the energy clique in favor of officials more closely aligned with Deng Xiaoping, and especially in view of the undoubtedly bitter controversy within the Chinese leadership over the reduced emphasis on heavy industry and steel, it would not be surprising to see Minister Tang replaced in the near future.

Shortly after the close of the NPC session, the *People's Daily* and *Worker's Daily* carried a series of letters to the editor excoriating Vice-Minister of Chemical Industry Li Guocai for fraud, arrogance, and incompetence. Whether any of these charges also will taint Minister Sun Jingwen remains to be seen.

Nor has the energy clique been the only group to suffer. Chen Yonggui, vice-premier and former leader of Mao's favorite agricultural model, the Dazhai Brigade, was forced to resign amid criticisms that for more than a decade his brigade falsified production statistics. Following within two weeks of Chen's removal, China's *Guangming Daily* carried an article about a radio repairman from Chen's home county who had been unable to obtain action on his complaint of unfair treatment despite repeated letters to Premier Hua Guofeng. Thus, within a few weeks the two pillars of Mao's (and Hua's) economic program — Daqing and Dazhai — had come up for severe criticism. One result, of course, was that Hua resigned as premier, while retaining his Party chairmanship.

"New Blood" in State Council

The third session of the Fifth NPC was billed as a changing of the guard. Old leaders were to retire so that new men, in the prime of life, could assume responsibility. To this end, six vice-premiers retired: Deng Xiaoping, 76; Chen Yun, 75; Li Xiannian, 75; Wang Renzhong, 73; Wang Zhen, 71; and Xu Xiangqian, 78. Three new vice-premiers were added. Huang Hua, 67, is minister of foreign affairs. Yang Jingren, whose age was officially given as 62 but who may be as old as 75, is minister in charge of the Nationalities Affairs Commission. Zhang Aiping, aged between 70 and 72, is deputy chief of staff of the People's Liberation Army. Thus, the much-vaunted infusion of "new blood" into the leadership lowered the average age of the State Council's leadership only from 67.7 years to 65.6 years of age (*see chart*).

The ages of retiring and newly appointed NPC Standing Committee vice-chairmen and members further indicates that a new wave of youngsters is not taking over. Those who retired are Marshal Nie Rongzhen, 80; Marshal Liu Bocheng, 88; Zhang Dingcheng, 83; Cai Chang, 80; and Zhou Jianren, 83. Replacing them are Peng Chong, 65; Xi Zhongxun, 67; Su Yu, 73; Yang Shangkun, 73; and 42-year-old Banqen Érdeni. Aside from the latter, who is a special case, all of these men have been at the top of political power since at least the 1950s.

Examining the ages of the old and new State Council and the NPC Standing Committee is revealing to an extent, but overlooks the fact that ultimate political power still rests with the Party

State Council Personnel Changes Made at Recent National People's Congress (August 30–September 10, 1980)

State Council Prior to September 10, 1980

	Age
Premier: Hua Guofeng	59
Vice-Premiers (18):	
Bo Yibo	73
Chen Muhua	59
Chen Yonggui	65*
Chen Yun	75
Deng Xiaoping	76
Fang Yi	71
Geng Biao	71
Gu Mu	66
Ji Pengfei	70
Kang Shien	60*
Li Xiannian	75
Wan Li	64
Wang Renzhong	63
Wang Zhen	71
Xu Xiangqian	78
Yao Yilin	63
Yü Qiuli	66
Zhao Ziyang	61
Average age	67.7

State Council After September 10, 1980

	Age
Premier: Zhao Ziyang	61
Vice-Premiers (13):	
Bo Yibo	73
Chen Muhua	59
Fang Yi	71
Huang Hua	67
Geng Biao	71
Gu Mu	66
Ji Pengfei	70*
Kang Shien	60*
Wan Li	64
Yang Jingren	62*
Yao Yilin	63
Yü Qiuli	66
Zhang Aiping	70*
Average age	65.6

*Approximate age

Politburo, where Deng and the other "retirees" continue to hold important Party posts. Consequently, the average age of this group has actually risen rather than declined, over the last several years.

These changes have been accompanied by the rise of certain protégés of those who retired, especially Deng Xiaoping and Peng Zhen. Vice-Premier Yao Yilin, newly appointed chairman of the State Planning Commission and member of the Party Secretariat, worked under Peng Zhen during the revolution and World War II. Subsequently, he served as both minister of commerce and deputy to Vice-Premier Li Xiannian in finance and trade. Similarly, Yang Shangkun was a close associate of Liu Shaoqi and Peng Zhen, and was also a high-ranking Party cadre. He has become a vice-chairman of the NPC's Standing Committee and its secretary-general.

Finally Wan Li, newly appointed head of the State Agricultural Commission, was a long-time associate of Deng Xiaoping, having attended school with Deng in France in the 1920s. After the revolution Wan served in various central capacities, including the construction ministry and the Beijing municipal Party and government appartus. In 1975 he was made minister of railroads, but was purged within a month of Deng's fall in April 1976. With Deng's return to power, Wan was sent as first party secretary to quell the severe radical disturbances in Anhui Province. In February 1980 he was elected to the Party Secretariat, and at the NPC was appointed China's top agricultural planner in charge of the State Agricultural Commission. Several unofficial sources have recently identified him as China's *first* vice-premier.

Almost obscured by these changes in leadership were two interesting and possibly significant personnel holdovers. Bo Yibo, despite his 73 years, did not retire as vice-premier and minister in charge of the Machine Building Industry Commission. Neither did Ye Jianying step down as NPC Standing Committee chairman. While previous occupants remained in this post until they died or were purged (the last occupant died at his post in 1976), Ye is known to be dissatisfied with the rapid and substantial erosion of Chairman Mao's image. Certainly no "radical," Ye reportedly asked that "de-Maoification" be delayed until "I close my eyes." Perhaps his failure to retire is a subtle protest.

Bo Yibo's reasons for staying are less clear. During the 1950s, Bo was an advocate of heavy industry and central control. These certainly are not the policies of Deng Xiaoping, Chen Yun, or Zhao Ziyang. Moreover, while Chen (a vocal advocate of a more "market-like" approach to Chinese economics in the 1950s) was made a member of the Politburo's Standing Committee, Bo was not even made a Politiburo member. It seems that he has been relegated to a position in which his technical and administrative expertise can be utilized, while his political and policy opinions are ignored. Perhaps he too is subtly protesting, or at least is hanging onto power to advance his views on heavy industry.

New Laws

In the legal realm, China's new system of laws continues to be expanded and clarified. The NPC passed a law on nationality that is designed to allay the fears of China's Southeast Asian neighbors by rejecting the notion of dual nationality. This should reduce concern about a potential "fifth column" of overseas Chinese with dual allegiances. At the same time, the new marriage law will make divorce easier, while making each couple "duty-bound to practice family planning." The legal age of marriage was raised from 18 to 20 years for women and from 20 to 22 years for men. The intent is to lower the population growth rate to one percent. Finally, the NPC spelled out in more detail the extent and form of the personal income and joint venture taxes. (*See* pp. 39 and 40.)

As the third session of the Fifth National People's Congress closed, its theme of continuing policies now in effect was made even clearer by rumors of the impending trial of the "Gang of Four" reportedly interrogated by Politburo members Peng Chong and Peng Zhen. The choice of these two inquisitors is at once ironic and significant. Peng Zhen was the first major victim of the Cultural Revolution, suffering humiliation for ten years at the hands of the "Gang." Peng Chong, by contrast, was never a victim of the Cultural Revolution. Peng was fortunate to work in Nanjing under the protection of General Xu Shiyou, who steadfastly resisted "radicals" of all stripes, first Lin Biao, then the Shanghai-based "Gang of Four." After the purge of the latter group, Peng was sent to Shanghai to lead the investigation into radicalism in China's largest city. As a result, he knows where all of the radical skeletons are buried.* 宪

**Special thanks to Professor David M. Lampton of The Ohio State University for sharing unpublished information about the background of Peng Chong.*

China's New Tax Laws for Joint Ventures and Individuals

Thomas J. Rasmussen
and Eugene A. Theroux

It may be more than a coincidence that the Chinese are reviving the legal profession at the same time they are enacting tax legislation. On September 10, 1980, the National People's Congress adopted a Joint Venture Income Tax Law and an Individual Income Tax Law. These laws form the basic guidelines for joint venture and individual income taxation in China, but some provisions of the laws raise important further questions. We understand that Chinese authorities have prepared drafts of income tax regulations that will supplement the new laws and perhaps resolve some of the ambiguities inherent in the laws themselves. The regulations may be published by the end of this year. Until further explanation of the laws is forthcoming, however, there can be only speculation about the precise effect of some of the important provisions.

Joint Venture Income Tax Law

The Joint Venture income tax is levied on the income derived from production, business, and other sources within China by any joint venture consisting of Chinese and foreign investment. The Chinese anticipate that joint ventures organized in China may operate in foreign countries through branches or subsidiaries. Whether income is derived within China, or by a foreign branch of the joint venture, the venture's head office is responsible for payment of the tax. A senior Chinese official involved in drafting the tax laws has said that the joint venture would also be responsible for payment of the tax on income earned by a subsidiary in a foreign country.

It is unclear how the Chinese intend to tax the income earned by a foreign subsidiary as opposed to a foreign branch of the joint venture. Will the joint venture be subject to tax on a subsidiary's income regardless of the extent of ownership or control of that subsidiary? Will the tax on the joint venture be assessed only on income remitted by the foreign subsidiary, or will the joint venture be deemed to have received certain taxable income from the subsidiary in a taxable year? Such questions cannot be answered until the Chinese provide further guidance on this subject.

Chinese Tax Credits

The law permits a joint venture to credit against its income tax paid to China any income tax paid to foreign countries on income earned by the joint venture or its branches (and, presumably, its subsidiaries) in those countries. Where China and a foreign country have entered into an agreement for the avoidance of double taxation, the terms of such agreement will take precedence over the Joint Venture Income Tax Law for determining allowable foreign tax credits.

The law does not explain how the credit mechanism will function in practice. For example, will the Chinese narrowly or broadly define the type of income tax that will be credited against their own? Will there be a different method for crediting taxes paid on foreign income earned by subsidiaries and by branches? Will there be a limitation on the amount of the credit for foreign income taxes that may be taken against the Chinese income tax? The answer to this last question is important to the Chinese because the joint venture tax rate is lower than most corporate income tax rates in use by industrially developed nations. Thus, in certain situations, a joint venture that paid an income tax to a foreign country at substantially higher rates than it paid to China might cancel out the Chinese tax through the foreign tax credit.

The forthcoming regulations may provide a more detailed explanation of the procedure to be used by joint ventures to credit foreign taxes against the income tax paid to China. A tax treaty may be the solution to problems involving foreign tax credits, but in view of the lengthy periods of negotiation necessary to conclude a tax treaty, it is important to foreign investors that this issue be clarified in advance of a treaty.

Taxable Income

The taxable income of a joint venture is defined in Article 2 of the tax law as net income for a taxable year after deduction of costs, expenses, and losses. Losses include not only current losses, but also those carried to the current year under the authority of Article 7, which provides that losses incurred in earlier taxable years may be carried over to the current year to compute net income in the current year. If total losses exceed income in a taxable year, the losses may be carried over and deducted from income in subsequent years for a period not to exceed five years. The law does not provide for losses to be carried back to be applied against prior years' income.

Article 2 of the Joint Venture Income Tax Law should probably be read in conjunction with Article 7 of the Joint Venture Law, promulgated in July 1979. Article 7 of the Joint Venture Law permits the distribution of the net profit of the joint venture to the venture's participants *after* the income tax is paid on the venture's gross profits *and after* deductions for reserve, bonus, and welfare funds and expansion funds. "Gross profits" in Article 7 of the Joint Venture Law seems to correspond to "net income" in Article 2 of the income tax law. Thus, the taxable income of the joint venture—net income—is computed by subtracting costs, expenses, and losses from gross income. However, the other deductions specified in Article 7 are probably not allowed in computing taxable income.

Tax Rates

As previously mentioned, the rate of tax on the taxable income of the joint venture is lower than the corporate tax rates generally used by industrially developed nations. The joint venture is taxed at an overall rate of 33 percent,

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China's new joint venture tax law and personal income tax law appear on pages 39 and 40, followed by the full texts of China's new regulations on labor management in joint ventures, and regulations on the registration of joint ventures.

which consists of a basic rate of 30 percent and a local surtax of 10 percent of the basic rate. We understand that the 10 percent surtax will be paid only once, no matter in how many localities the venture may operate. The surtax amount will be paid to the central government which will designate the payment for the locality in which the surtax was paid.

Significantly, the law states that the income tax rate on joint ventures engaged in the business of exploiting natural resources will be determined separately. Gu Mu, the deputy director of the Legislative Affairs Commission of the NPC Standing Committee, explained to the NPC that China was aware that other countries taxed such businesses at higher rates than those not engaged in the exploitation of natural resources. He said that the issue will be studied further and that a tax rate will be announced in the future. We are aware of one official who has said that the Chinese were considering a 50 percent rate. This would be low in view of the much higher rates charged by other oil-exporting countries.

Taxation of Extractive Industries

Because of the importance that China attaches to development of its natural resources, it is not surprising that the new joint venture tax law is silent on the question of the tax rate to be imposed on natural resource joint ventures. We understand that the Chinese are considering a tax on such ventures that would have features different from those contained in the basic tax on joint ventures. A key question for US companies is whether any special characteristics of the tax imposed on the income of natural resource joint ventures will affect the companies' ability to qualify for the US foreign tax credit.

The proposed foreign tax credit regulations first issued by the US Treasury Department in June 1979 and reissued in revised form on November 12, 1980, do not allow the crediting against US income tax of payment to a foreign country given in compensation for an economic benefit, specifically including the use or extraction of natural resources. It is not possible to discuss here the complexities of these regulations, but it should be emphasized that the regulations distinguish in various ways between a creditable income tax and a noncreditable charge given in compensation for an economic benefit.

Assuming that the Joint Venture Income Tax Law as now drafted imposes a creditable income tax according to United States standards, the primary concern for American companies is the extent to which the Chinese will change the law with respect to natural resource joint ventures. If the Chinese tax the income of such joint ventures in a significantly different way than that provided in the existing law, US tax authorities may conclude that those ventures are not paying an income tax but are paying for an economic benefit. US companies will have to wait for the final Treasury regulations and for the promulgation by the Chinese of any special tax provisions applying to natural resource exploitation before they can adequately plan their tax exposure in this area.

Withholding

A somewhat surprising provision of the Joint Venture Tax Law is the withholding rate on the remitted profits of the foreign participant in the joint venture. The rate is 10 percent of the remitted amount, which is lower than the typical 15–30 percent rates imposed by other countries. Many observers had speculated that the withholding rate on remitted profits would be set at a higher level.

We understand that Chinese tax officials may not tax remitted profits if the remittable amount is instead deposited in a Chinese bank in China, or perhaps, a foreign branch of the Bank of China. But if the amount were deposited in the Chinese branch of a foreign bank, no exemption would be granted. Such a procedure would of course have an adverse effect on the operation of foreign banks in China.

Tax Incentives

The Joint Venture Income Tax Law provides certain incentives to joint ventures in the form of tax exemptions and reductions. Article 5 of the law provides that a new joint venture projected to operate for at least ten years may be exempted from income tax in its first profitable year and be allowed a 50 percent reduction in tax in its second and third profitable years. In addition, Article 5 provides that joint ventures engaged in farming or forestry or operating in remote underdeveloped areas may be allowed a 15 to 30 percent income tax reduction for a period of ten years *after* the expiration of the period in which the initial exemption or reductions in income tax were allowed. Article 6 of the law encourages reinvestment of the joint venture's profits in China by permitting a refund of 40 percent of the income tax paid on the reinvested amount. The reinvestment must be for a period of at least five years.

A tax incentive for joint ventures mentioned in Article 7 of the Joint Venture Law (promulgated July 8, 1979)—but not in the income tax law—is the reduction in tax for the use of advanced technology. The Joint Venture Law permits an unspecified reduction in income tax for a joint venture that possesses advanced technology by world standards. Neither the Joint Venture Law nor the income tax law define what the Chinese mean by technology that would qualify for this tax incentive.

The tax incentives provided by the Joint Venture Income Tax Law differ markedly from the incentives provided by the regulations of various special industrial zones that have been established in China. The regulations of the Shekou Industrial Zone in Guangdong, for example, grant tax holidays to investors and tax corporate profits at a 10 percent rate. A joint venture may find the tax climate more to its liking in one of these zones than in other areas of China. However, the relationship between the regulations of the special industrial zones and the general Joint Venture Income Tax Law is not clear. It is not certain, for example, whether a joint venture that becomes established in one of these zones in the future will be taxed under the zone's regulations or under the Joint Venture Income Tax Law. In addition, it is not known whether the promulgation of the tax law will alter the tax status of joint ventures currently operating in one of the zones. Thus, the precise relationship between the law and the regulations of the special industrial zones should be defined as soon as possible.

Tax Payment

The Joint Venture Income Tax Law sets forth various procedures for the payment and collection of the tax. The tax is levied on an annual basis and paid provisionally within 15 days of the end of each quarter. Payment of the finally determined amount is made within three months of the end of the taxable year. These procedures correspond to the US-estimated tax payment procedures. Tax returns are filed with local authorities and the tax is computed in *Ren min bi*. The tax authorities have the right to investigate the books and records of any joint venture.

Overdue tax payments are assessed a surcharge of half of 1 percent for each day that the payment is overdue. More serious penalties of up to five times the amount of the unpaid tax may be imposed for tax evasion. Tax disputes will be handled first by local tax authorities and, in the event of continued disagreement, by higher tax authorities or by the people's courts. The joint venture must pay the assessed income tax before seeking a refund through the dispute resolution process.

The only way for a joint venture participant to contest its assessed tax is to pay first and argue later. The law does not provide a procedure, as exists in the US, whereby a taxpayer can obtain a determination of the correct amount of tax owed without first paying the amount assessed by the tax authorities. The absence of such a procedure in the Joint Venture Income Tax Law could result in hardship for joint ventures, particularly smaller ones. A joint venture participant that is not able to pay a large amount of assessed tax may find the appeals procedures to be meaningless if its financial condition is impaired by the payment of a tax that is later found to be excessive. An alternative procedure for contesting an assessed tax would be a useful addition to the procedures set forth in the law.

Another question unanswered by the law is whether joint ventures will be subject to other Chinese taxes such as the Industrial and Commercial Income Tax. At present, we assume that joint ventures are subject to such taxes. It would be helpful to foreign investors if this issue were clarified in the regulations.

Individual Income Tax Law

The Individual Income Tax Law taxes the worldwide income of individuals who reside in China for a year or more. Nonresidents and individuals residing in China for less than a year are taxed only on their income earned within China. The law does not give a precise definition of residency. Thus, it is not clear whether physical presence, subjective intent to remain for a certain period, or some other standard will be controlling. One Chinese official involved in writing the tax laws has indicated that an intent standard will be used in determining residency. However, the Chinese have not made a final decision on this matter.

The Individual Income Tax Law also does not define "income gained within or outside China." We may assume that this phrase means income from any source earned anywhere in the world. If this assumption is correct, then individuals residing in China for more than one year will be subject to double taxation on their income. Unlike the Joint Venture Tax Law, the Individual Tax Law does not provide for a tax credit for foreign taxes paid on income earned in other countries. It is to be hoped that the Chinese will make provision for such a credit for individuals in the forthcoming regulations. Otherwise, individuals planning a lengthy stay in China should recognize that they will be subject to a higher than normal tax burden.

The types of income that are subject to the tax are wages and salaries, compensation for personal services, royalties, interest, dividends, bonuses, and income from rental property. There is no concept in the law of a "capital asset" that is taxed differently from other items of income. The law exempts from taxation various categories of individual income, such as salaries of diplomats assigned to China, and interest on deposits in state banks and cooperatives. However, the Ministry of Finance may specify other types of income that will be subject to taxation.

The taxable income of an individual is generally computed by applying a specified deduction against gross income. No other deductions are allowed. Thus, in the case of income from wages and salaries, an individual may deduct ¥800 monthly; the amount above ¥800 is taxable. In the case of income from personal services, royalties, or rental property, a deduction of ¥800 is allowed for single payments less than ¥4,000, and a deduction of 20 percent of the amount received is allowed for single payments greater than ¥4,000. Again, the amount remaining after the deduction is taxable. No deduction is permitted against income from interest, dividends, or bonuses.

The law does not define the meaning of "single payment." This could be interpreted to mean the deduction would apply only once to the specified items of income, or that the deduction would apply to the monthly aggregate of income from personal services, royalties, or rental property. This is another area in which supplementary regulations are needed.

Because the income of almost all Chinese is below ¥800, it is obvious that the individual income tax will apply primarily to foreigners. The rate of tax to be paid varies according to the type of income being taxed. The rate on income from wages and salaries is progressive, ranging from 5 percent on monthly income from ¥801 to ¥1,500, to 45 percent on monthly income above ¥12,000. The other categories of income taxable to an individual are taxed at a flat rate of 20 percent.

The procedures for paying and collecting individual income tax are similar to those provided by the Joint Venture Tax Law. One significant difference is that individuals do not pay their taxes on an estimated basis. Taxes must be withheld monthly by the payor of the income and submitted to the tax authorities within the first seven days of the following month. If the payor does not withhold the tax, then the recipient of the income must forward the tax to the authorities. In addition, anyone who earns taxable income outside China must pay the tax due and report the income within one month of the end of the taxable year. The law does not indicate whether the tax on such income must also be paid on a monthly basis.

The penalties that may be imposed against an individual for failure to pay tax, for concealing income, or for evading the tax are also similar to those imposed under the Joint Venture Tax Law. That is, the taxpayer must first pay the assessed tax and then, if a disagreement arises, seek a refund through the dispute resolution process.

Conclusion

Perhaps we should not expect too much detail in China's tax laws at the present stage of China's developing relations with foreign investors. The Chinese traditionally prefer less explicit laws than those found in the West. However, the enthusiasm of foreigners for establishing joint ventures has waned since the promulgation of last year's Joint Venture Law, in part because of the uncertain tax consequences of investing in China. The new tax laws eliminate some but by no means all of those uncertainties. 究

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China's Tax Laws

Income Tax Law Concerning Joint Ventures With Chinese and Foreign Investment

The CBR *obtained the following "unofficial translation" of the text from the Information Department of the Ministry of Foreign Affairs. The official text is the Chinese version. The law was approved by the third session of the Fifth National People's Congress on September 10, 1980, and promulgated for enforcement the same day.*

Article 1. Income tax shall be levied in accordance with this law on the income derived from production, business, and other sources by any joint venture with Chinese and foreign investment (hereinafter called joint venture for short) in the People's Republic of China. Income tax on the income derived from production, business, and other sources by branches within or outside the territory of China of such joint ventures shall be paid by their head office.

Article 2. The taxable income of a joint venture shall be the net income in a tax year after deduction of costs, expenses, and losses in that year.

Article 3. The income tax rate on joint ventures shall be 30 percent. In addition, a local surtax of 10 percent of the assessed income tax shall be levied. The income tax rates on joint ventures exploiting petroleum, natural gas, and other resources shall be stipulated separately.

Article 4. In the case of a foreign participant in a joint venture remitting its share of profit from China, an income tax of 10 percent shall be levied on the remitted amount.

Article 5. A newly established joint venture scheduled to operate for a period of ten years or more may, upon approval by the tax authorities of an application filed by the enterprise, be exempted from income tax in the first profit-making year and allowed a 50 percent reduction in the second and third years. With the approval of the Ministry of Finance of the People's Republic of China, joint ventures engaged in such low-profit operations as farming and forestry or located in remote, economically underdeveloped outlying areas may be allowed a 15–30 percent reduction in income tax for a period of ten years following the expiration of the term for exemptions and reductions mentioned in the preceding paragraph.

Article 6. A participant in a joint venture which reinvests its share of profit in China for a period of not less than five years may, upon approval by the tax authorities of an application filed by the said participant, obtain a refund of 40 percent of the income tax paid on the reinvested amount. A participant which withdraws its reinvested funds within five years shall pay back the tax amount refunded.

Article 7. Losses incurred by a joint venture in a tax year may be carried over to the next tax year and made up with a matching amount drawn from that year's income. Should the income in the subsequent tax year be insufficient to make up for the said losses, the balance may be made up with further deductions against income year by year over a period not exceeding five years.

Article 8. Income tax on joint ventures shall be levied on an annual basis and paid in quarterly installments. Such provisional payment shall be made within 15 days after the end of each quarter. The final settlement shall be made within 3 months of the end of a tax year. Excess payments shall be refunded by the tax authorities or deficiencies made good by the taxpayer.

Article 9. Joint ventures shall file their provisional income tax returns with the local tax authority within the period prescribed for provisional payments. The taxpayer shall file its final annual income tax return together with its final accounts within three months of the end of the tax year.

Article 10. Income tax levied on joint ventures shall be computed in terms of *ren min bi* (RMB). Income in foreign currency shall be assessed according to the exchange rate quoted by the State General Administration of Exchange Control of the People's Republic of China and shall be taxed in *ren min bi*.

Article 11. When joint ventures go into operation or when they change the nature of their business, change their address, close down, and make changes in our transfer registered capital, such joint ventures shall register with the General Administrative Bureau for Industry and Commerce of the People's Republic of China, and within 30 days of such registration, present the relevant certificates to the local tax authority for tax registration.

Article 12. The tax authorities have the right to investigate the financial affairs, account books, and tax situation of any joint venture. Such joint venture must make reports according to the facts and provide all relevant information and shall not refuse to cooperate or conceal the facts.

Article 13. A joint venture must pay its tax within the prescribed time limit. In cases of failure to pay within the prescribed time limit, the appropriate tax authority, in addition to setting a new time limit for tax payment, shall surcharge overdue payments at one half of one percent of the overdue tax for every day in arrears, starting from the first day of default.

Article 14. The tax authorities may, acting at their discretion, impose a penalty on any joint venture which has violated the provisions of articles 9, 11, and 12 of this law. In dealing with any joint venture which has evaded or refused to pay tax, the tax authorities may, in addition to pursuing the tax, impose a penalty of not more than five times the amount of tax underpaid or not paid, according to the seriousness of the offense. Cases of gross violation shall be handled by the local people's courts according to law.

Article 15. In cases of disputes with tax authorities about tax payment, joint ventures must pay tax according to the relevant regulations first before applying to higher tax authorities for reconsideration. If they do not accept the decisions made after such reconsideration, they can bring the matter before the local people's courts.

Article 16. Income tax paid by a joint venture or its branch in other countries may be credited against the assessed income tax of the head office as foreign tax credit. Where agreements on avoidance of double taxation have been concluded between the government of the People's Republic of China and the government of another country, income tax credits shall be handled in accordance with the provisions of the related agreements.

Article 17. Detailed rules and regulations for the implementation of this law shall be formulated by the Ministry of Finance of the People's Republic of China.

Article 18. This law shall come into force from the date of promulgation. 完

Individual Income Tax Law of the People's Republic of China

Adopted by the third session of the Fifth National People's Congress on September 10, 1980, China's personal income tax law was promulgated the same day by order of Ye Jianying, chairman of the NPC's Standing Committee.

Article 1. An individual income tax shall be levied in accordance with the provisions of this law on the incomes gained within or outside China by any individual residing for one year or more in the People's Republic of China. For those individuals either not residing in China or residing there less than one year, individual income tax shall be levied only on that income gained within China.

Article 2. Individual income tax shall be levied on the following categories of income:

1. wages and salaries
2. compensation for personal services
3. royalties
4. interest, dividends, and bonuses
5. income from lease of property
6. other kinds of income specified as taxable by the Ministry of Finance of the People's Republic of China.

Article 3. Individual income tax rates:

1. Income from wages and salaries in excess of specific amounts shall be taxed at progressive rates ranging from 5 percent to 45 percent (*see appended tax rate table*).
2. Income from compensation for personal services, royalties, interest, dividends, bonuses, and lease of property, and other kinds of income shall be taxed at a flat rate of 20 percent.

Article 4. The following categories of income shall be exempted from individual income tax:

1. Prizes and awards for scientific, technological, or cultural achievements;
2. Interest on savings deposits in the state banks and credit cooperatives of the People's Republic of China;
3. Welfare benefits, survivors' pensions, and relief payments;
4. Insurance indemnities;
5. Military severance pay, decommission or demobilization pay for cadres and fighters of the armed forces;
6. Severance pay or retirement pay for cadres, staff members, and workers.
7. Salaries of diplomatic officials of foreign embassies and consulates in China
8. Tax-free incomes as stipulated in international conventions to which China is a party, or as stipulated in agreements China has signed
9. Incomes approved as tax-free by the Ministry of Finance of the People's Republic of China.

Article 5. The amount of taxable income shall be computed as follows:

1. For income from wages or salaries, a monthly deduction of 800 yuan shall be allowed; that part in excess of 800 yuan shall be taxed.
2. For income from compensation for personal services, royalties, or lease of property, a deduction of 800 yuan shall be allowed for expenses if the amount in a single payment is less than 4,000 yuan; for single payments in excess of 4,000 yuan a deduction of 20 percent shall be allowed. The balance remaining after deduction shall be taxed.
3. Interest, dividends, bonuses, or other kinds of income shall be taxed on the full amount received in each payment.

Article 6. For individual income tax, the income earner shall be the party responsible for paying the tax and the paying unit shall be the withholding agent. Taxpayers not covered by withholding are required personally to file declarations of their income and pay tax themselves.

Article 7. Taxes withheld each month by a withholding agent and those to be paid each month by taxpayers filing personal returns shall be turned in to the state treasury and the tax return submitted to the tax authority within the first seven days of the following month. Any taxpayer who earns income outside China shall pay the tax due to the state treasury and submit a tax return to the tax authority within 30 days of the end of each year.

Article 8. All incomes shall be computed in terms of *ren min bi* (RMB). Income in foreign currency shall be assessed according to the exchange rate quoted by the State General Administration of Foreign Exchange Control of the People's Republic of China, and shall be taxed in *ren min bi.*

Article 9. The tax authorities have the right to conduct investigations concerning the payment of tax. Withholding agents and taxpayers filing personal returns must report according to the facts and provide all relevant information and shall not refuse or conceal the facts.

Article 10. A commission of 1 percent of the tax amount withheld shall be paid to the withholding agents.

Article 11. A withholding agent or a taxpayer filing

Individual Income Tax Rates
(applicable to wages and salaries)

Grade	Range of Income	Tax Rate (percent)
1	Monthly income of 800 yuan and less	Exempt
2	That part of monthly income from 801 to 1,500 yuan	5
3	That part of monthly income from 1,501 to 3,000 yuan	10
4	That part of monthly income from 3,001 to 6,000 yuan	20
5	That part of monthly income from 6,001 to 9,000 yuan	30
6	That part of monthly income from 9,001 to 12,000 yuan	40
7	That part of monthly income above 12,000 yuan	45

New PRC Law Journal

The *China Law Reporter,* a new quarterly published by the Committee on the People's Republic of China of the American Bar Association's International Law section, issued its first 36-page volume in September. The editors are Dr. Tao-tai Hsia, chief of the Far Eastern Law Division of the Library of Congress, and Thomas J. Rasmussen, an attorney with the law firm of Baker & McKenzie, in Washington, DC.

Designed mainly for attorneys, the *China Law Reporter* will analyze Sino-American legal matters. Each issue will contain articles on specific issues, as well as translations of new Chinese laws and legal documents.

Subscriptions are $25.00 per year, and may be obtained by mailing a check, payable to the American Bar Association, to Division of Professional Service Activities, Section of International Law, American Bar Association, 1155 East 60th Street, Chicago, Illinois 60637.

personal returns must pay the tax due within the prescribed time limits. In cases of failure to pay within the prescribed time limits, the appropriate tax authority, in addition to setting a new time limit for tax payment, shall surcharge overdue payments at one half of one percent of the overdue tax for every day in arrears, starting from the first day of default.

Article 12. The tax authorities may, acting at their discretion, impose a penalty on withholding agent or on a taxpayer filing personal returns who has violated the provisions of Article 9 of this law. In dealing with those who have concealed income or evaded or refused to pay tax, the tax authorities may, in addition to pursuing the tax, impose a penalty not more than five times the amount of tax underpaid or not paid, according to the seriousness of the offense. Cases of gross violation shall be handled by the local people's courts according to the law.

Article 13. In case of disputes with the tax authorities over the payment of taxes, the withholding agent or taxpayer filing personal returns must pay taxes according to the relevant regulations first before applying to higher tax authorities for reconsideration. If they do not accept the decisions made after such reconsideration, they can bring the matter before the local people's courts.

Article 14. Detailed rules and regulations for the implementation of this law shall be formulated by the Ministry of Finance of the People's Republic of China.

Article 15. This law shall come into force from the date of promulgation. 完

Supplementary Joint Venture Resolutions

Full Texts

The following regulations help to clear up some of the ambiguity in China's original Joint Venture Law promulgated on July 8, 1979. The first regulation on the registration of joint ventures clarifies articles 3, 9, 11, and 13 of the Joint Venture Law with regard to a joint ventures's relationship with local financial, labor, and licensing authorities. The regulation on management expands upon Article 6 of the Joint Venture Law with regard to the government's policy on wages, incentives, working hours, discipline, and labor insurance.

Both laws were promulgated October 8, 1980, in communiqué no. 10 of the State Council.

Regulations on the Registration of Joint Ventures Using Chinese and Foreign Investment

Article 1. The present regulations are worked out in accordance with stipulations laid down in the "Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment" and for the purpose of registering such ventures to protect their legitimate operations.

Article 2. A joint venture using Chinese foreign investment should, within one month after being approved by the Foreign Investment Commission of the People's Republic of China, register with the General Administration for Industry and Commerce of the People's Republic of China.

The General Administration for Industry and Commerce authorizes the administrative bureaus for industry and commerce in the provinces, municipalities, and autonomous regions to register joint ventures using Chinese and foreign investment in their localities. Licenses for operations shall be issued to the said joint ventures after examination by the General Administration for Industry and Commerce of the People's Republic of China.

Article 3. In applying for registration, a joint venture using Chinese and foreign investment should produce the following documents:

1. The document of approval issued by the Foreign Investment Commission of the People's Republic of China.
2. The agreement on the joint venture reached by the various parties involved, the contract and the articles of association of the venture, in both Chinese and foreign languages and each in triplicates, and
3. A duplicate of the license and other documents issued by the departments concerned under the government of the country (or region) from which the foreign participants in the joint venture come.

Article 4. In applying for registration of a joint venture using Chinese and foreign investment, a registration form, in triplicates, shall be filed. Items to be registered include the name of the venture, its address, scope of production and business, forms of production and business, registered capital of the parties concerned, chairman and vice-chairman of the board of directors, general director and deputy director of the plant, the number and date of approval on the document, the size of the entire staff, and the number of foreign workers and staff members.

Article 5. A joint venture using Chinese and foreign investment is regarded as having been officially established the day when a license for its operation is issued to it, and the legitimate production and business shall be protected by the law of the People's Republic of China.

An unregistered enterprise shall not be permitted to go into operation.

Article 6. A joint venture using Chinese and foreign investment shall, by producing the license for its operation, open an account with the Bank of China or another bank approved by the Bank of China, and register with the local tax bureau for payment of taxes.

Article 7. In cases where a joint venture using Chinese and foreign investment desires to move to a new site, shift its production, increase or cut or transfer the registered capital, or extend the contract period, the said venture shall, within one month after approval by the Foreign Investment Commission of the People's Republic of China, register the changes with the Administrative Bureau for Industry and Commerce in the province, municipality, or autonomous region where it is located.

In cases where changes to other items are effected, the said venture shall have to forward at the end of the year a written report about these changes to the Administrative Bureau for Industry and Commerce in the province, municipality, or autonomous region where it is located.

Article 8. In registering or getting its changes registered, a joint venture using Chinese and foreign investment shall pay the registra-

OPIC Agreement Reached

Chinese and US negotiators signed an agreement October 30 which permits the Overseas Private Investment Corporation (OPIC) to extend political risk insurance covering private US investment in China. The agreement took effect immediately.

OPIC, a self-sustaining agency of the US government, provides 90 percent insurance coverage for 20 years at low premiums against inconvertibility of currency, expropriation, war, and revolution. Loan guarantees of up to $50 million are provided, as are loans of up to $5 million for small business investors. OPIC gives preference to investments in poor countries with per capita GNP's under $520.

Congress authorized China's eligibility for OPIC programs on July 28, shortly before a presidential determination that eligibility is "in the national interest" (*see CBR*, Sept.–Oct., 1979, p. 20). Both of these steps are required by statute for countries ruled by Communist parties. Yugoslavia and Romania are the only other Communist countries granted eligibility.

Under the October agreement, China accepted the principle of subrogation, whereby the US government, through OPIC, would acquire the rights of an aggrieved company, transforming a government-company dispute into a government-government dispute.

However, the recently signed Investment Guarantee Agreement leaves many unanswered questions. One controversial issue left unresolved, for example, is the formula for repaying expropriated investors. China simply agrees to the right of OPIC, as a subrogee of a US investor, to seek redress under prevailing norms of international law, through arbitration if necessary.

OPIC guarantees can be given only to projects which have received host government approval, a rule applied to all 96 countries where OPIC is involved. A memorandum accompanying the agreement defines Chinese government approval as coming from:

- The Foreign Investment Control Commission (FICC) in the case of joint Chinese-foreign or foreign equity ventures under its jurisdiction.
- Administrative commissions of the Special Economic Zones, of which there are currently six (three in Guangdong Province and three in Fujian) for investments, technology transfer, etc., in these areas where foreign investment regulations are liberalized (*see* "Guangdong Export Zone Laws," this issue).
- An agency specified to OPIC by FICC in cases which meet neither of these conditions. The deliberate vagueness in this third category allows the Chinese flexibility in determining what bureaucratic agency will have authority over such important investments as offshore oil developments by foreign companies, which will be undertaken in the form of service contracts.

Interest in OPIC benefits has been running high among potential US investors. About 80 firms already contacted OPIC, and another 16 firms have submitted formal letters of intent indicating their joint venture plans in China, in sectors ranging from oil and mineral extraction to electronics. OPIC officials anticipate little difficulty in meeting the demand for China investment insurance.

Information on OPIC programs may be obtained by writing to: Information Officer, Overseas Private Investment Corporation, 1129 20th Street, NW, Washington, DC 20527, or by telephoning on the Corporation's toll-free "Hot Line," (800) 424–OPIC.–MW

German-Chinese Joint Ventures: The Familiar Slowdowns

US firms are not the only companies encountering problems in their joint venture negotiations with China. The CBR's Nicholas H. Ludlow explains why West German joint venture negotiations are also going so slowly in this September 25 report from Frankfurt.

While Germany's insurance company Hermes is providing coverage for some DM 3.7 billion ($2.1 billion) worth of German mining, chemical, and steel-related equipment sales to the PRC—and has pending applications worth another DM 6 billion ($3.4 billion), German investment projects in China are unlikely to move ahead until China's joint venture laws are spelled out more clearly, and until a Sino-German investment guarantee agreement is signed.

Major joint venture negotiations by such firms as Volkswagen and Mercedes-Benz are currently stalled owing to unresolved differences between Hermes' Investment Insurance Department and the Chinese government.

The FRG first sent an investment agreement proposal to China in 1979, suggesting a format similar to its agreement with Romania—one of 45 signed so far by Germany with foreign countries. But no response came from Beijing until Germany's minister of economic affairs, Herr Lambsdorff, visited the PRC in August 1980. At that time, Chinese officials presented counterproposals—many unacceptable to both the FRG and German companies.

Beijing first ruled out the idea of "reciprocal treatment" or MFN for investments, by which investments in the PRC would not be treated any less favorably than investments made by China's own companies. Instead, the PRC suggested that treatment "would not be less favorable than that with other foreign companies." This was unacceptable to German officials.

Remittance guarantees was another sticking point. The FRG wanted an absolute guarantee, but the Chinese only agreed that remittances of profits, royalties, and other payments abroad be "subject to local rules." While recognizing the decentralization process going on in China, German officials did not see the interests of German firms being met by a provision that too easily could be subject to unilateral interpretation by Chinese authorities.

The German side is receiving major input in the negotiations from the Arbeitskreis China (China working group) of the Ost-Ausschuss der Deutschen Wirtschaft, Germany's private federation of industry known as the BDI.

The definition of the capital itself was also a problem. Germany has a clear definition of the meaning of investment that includes know-how, patents, and so forth, as well as the capital itself. Not so with China, which insists on defining investment only as capital and interest.

The PRC also stalled on timing of payment in the event of expropriation, offering payment in bonds over 20 years or some other period of time. The FRG wants immediate payment in deutschmarks.

In addition, China wanted payment terms to be governed by the rules of its central bank, the People's Bank of China, which also could change from time to time. In short, China seemed to want its cake and eat it, at least in the view of German companies.

Germany sent a specialist to China in September to discuss these points and to attend a special joint venture conference. But nothing will happen until the FRG sends its counterproposal to the Chinese. By then, perhaps, China will have finalized its own joint venture implementation regulations.

Meanwhile, Germany's trade with the PRC has begun to decline (by 20 percent in the first six months of this year). This is an important consideration for German firms since, unlike the US, the majority of German exports to China are manufactured goods.

tion fee or the fee for getting its changes registered, the sum of which is to be fixed by the General Administration for Industry and Commerce of the People's Republic of China.

Article 9. A joint venture using Chinese and foreign investment, upon the expiration of the contract period of the venture or desirous of terminating the contract before its expiration date, shall upon production of the document of approval issued by the Foreign Investment Commission of the People's Republic of China, register for the nullification of the contract with the Administrative Bureau for Industry and Commerce in the province, municipality or autonomous region where it is located. The license of the said venture shall be handed in for cancellation after examination by the General Administration for Industry and Commerce of the People's Republic of China.

Article 10. The General Administration for Industry and Commerce of the People's Republic of China and the administrative bureaus for industry and commerce in the provinces, municipalities, and autonomous regions are authorized to supervise and inspect the joint ventures using Chinese and foreign investment in the areas they govern. In cases of violations of the present regulations, the violator shall be given a warning or be fined in accordance with the varying degrees of seriousness in each specific case.

Article 11. The present regulations come into force on the date of its promulgation. 完

Regulations on Labor Management in Joint Ventures Using Chinese and Foreign Investment

Article 1. Labor management problems concerning joint ventures using Chinese and foreign investment (hereinafter referred to as joint ventures) should be handled in accordance with the regulations, in addition to the pertinent stipulations in Article 6 of the "Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment."

Article 2. Matters pertaining to employment, dismissal, and resignation of the workers and staff members, tasks of production and other work, wage and awards and punishment, working time and vacation, labor insurance and welfare, labor protection and labor discipline in joint ventures shall be stipulated in the labor contracts signed.

A labor contract is to be signed collectively by a joint venture and the trade union organization formed in the joint venture. A relatively small joint venture may sign contracts with the workers and staff members individually.

A signed labor contract must be submitted to the labor management department of the provincial, autonomous regional, or municipal people's government for approval.

Article 3. The workers and staff members of a joint venture either recommended by the authorities in the locality in charge of the joint venture or the labor management department, or recruited by the joint venture itself with the consent of the labor management department, should all be selected by the joint venture through examination for their qualification.

Joint ventures may run workers' schools and training courses for the training and managerial personnel and skilled workers.

Article 4. With regard to the surplus workers and staff members as a result of changes in production and technical conditions of the joint venture, those who fail to meet the requirements after training and are not suitable for other work can be discharged. However, this must be done in line with the stipulations in the labor contract and the enterprise must give compensation to these workers.

The dismissed workers and staff members will receive assignments for other work from the authorities in charge of the joint venture or the labor management department.

Article 5. The joint venture may, according to the degree of seriousness of the case, take action against those workers or staff members who have violated rules and regulations of the enterprise that result in certain bad consequences. Punishment by discharges must be reported to the authorities in charge of the joint venture and the labor management department for approval.

Article 6. With regard to the dismissal and punishment of workers and staff members by the joint venture, the trade union has the right to raise an objection if it considers them unreasonable, and send representatives to seek a solution through consultation with the Board of Directors. Should the consultation fail to arrive at a solution, the matter will be handled in accordance with the procedures set forth in Article 14 of the present regulations.

Article 7. When workers and staff members of a joint venture, on account of special conditions, submit resignation to the enterprise through the trade union in accordance with the labor contract, the enterprise should give its consent.

Article 8. The wage level of the workers and staff members in a joint venture will be determined at 120 to 150 percent of the real wages of the workers and staff members of state-owned enterprises of the same trade in the locality.

Article 9. The wage standards, the form of wages paid, and bonus and subsidy systems are to be discussed and decided upon by the Board of Directors.

Article 10. The bonuses and welfare funds drawn by the joint venture from the profits must be used as bonuses, awards, and collective welfare and should not be misappropriated.

Article 11. A joint venture must pay for the Chinese workers' and staff members' labor insurance, cover their medical expenses, and various kinds of government subsidies in line with the standards prevailing in state-owned enterprises.

Article 12. The employment of foreign workers and staff members and their dismissal, resignation, pay, welfare and social insurances, and other matters concerned should all be stipulated in the employment contracts.

Article 13. Joint ventures must implement the relevant rules and regulations of the Chinese government on labor protection and ensure safety in production and civilized production. The labor management department of the Chinese government is authorized to supervise and inspect their implementation.

Article 14. Labor disputes occurring in a joint venture should first of all be solved through consultation by both parties. If consultation fails to arrive at a solution, either party or both parties may request for arbitration by the labor management department of the people's government of the province, autonomous region, or municipality where the joint venture is located. Either party that disagrees to the arbitration may file a suit at the people's court.

Article 15. The right of interpretation of the present regulations belongs to the State Bureau of Labor of the People's Republic of China.

Article 16. The regulations come into force on the date of its promulgation. 完

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New Bank of China Regulations

New Bank of China Regulations

New regulations governing the Bank of China were ratified by the State Council and promulgated on September 22, 1980. The Chinese text was released by *Xinhua* news agency on October 12.

The bank was one-third privately owned under its pre-1949 Articles of Association, which reportedly remained unchanged until the recent regulations were promulgated.

It is interesting that the regulations give the Bank of China the authority to issue "foreign currency bonds and other negotiable securities," which suggest issuance of the first Bank of China international bonds in 1981, at the start of the 1981–85 plan.

The regulations also increase the bank's capital by 150 percent from ¥400 million ($267 million) to ¥1 billion ($667 million).

Henceforth the bank will have a honorary chairman, a chairman of the board, vice-chairman of the board, a routine business director (a new post), and several directors. Previously, the bank had seven vice-chairmen, 20 managing directors, and 21 directors (*see CBR*, Jan.–Feb., 1980, pp. 79–81).

Bank of China Regulations
Chapter I. General Principles

Article 1. The Bank of China is a socialistic, state-operated enterprise, and acts as the state's special foreign exchange bank for the People's Republic of China.

Article 2. The duties of the Bank of China are to organize, utilize, accumulate, and control foreign capital, to handle all foreign exchange transactions, engage in international financial activities, and establish services for the modernization of socialism.

Article 3. The Bank of China shall set up its main branch in Beijing, and shall, based on business needs, set up branch or representative organizations in key commercial and financial areas both domestically and abroad.

Chapter II. Capital

Article 4. The capital of the Bank of China is one billion RMB.

Chapter III. Business Activities

Article 5. The Bank of China operates and is commissioned to handle the following types of business activities:

1. International account settling for foreign trade and nontrade transactions.
2. Savings and loans between international banks.
3. Overseas Chinese remittances and other international remittances.
4. Foreign currency savings and loans as well as foreign exchange business in accordance with RMB savings and loan practices permitted by the People's Bank of China.
5. Foreign exchange transactions (including that of foreign currency).
6. International gold transactions.
7. Organization or participation in international consortium loans.
8. Investment in or joint operation of banks, financial corporations, or other enterprises in the Hong Kong-Macao area, and in foreign countries.
9. Issuance of foreign currency bonds and other negotiable securities, in accordance with the power delegated by the state.
10. Crediting and consulting.
11. Other bank activities permitted or commissioned by the state.

Article 6. Participation in international financial conferences, in accordance with power delegated by the state.

Article 7. Agencies set up by the Bank of China in foreign countries and in the Hong Kong-Macao area shall operate their banking business in accordance with local laws and decrees.

Chapter IV. Organization

Article 8. The Bank of China shall set up a Board of Directors, consisting of an honorary chairman of the board, a chairman of the board, a vice-chairman of the board, a routine business director, and several directors. All positions are to be appointed by the State Council.

Article 9. The duties of the Bank of China's Board of Directors are to:

1. Examine and approve the business objectives and plans of the bank.
2. Listen to and examine the work reports by the president of the bank.
3. Examine and adopt the final accounts for the fiscal year and plans for handling profit.
4. Appoint and dismiss the bank's seniority personnel.
5. Examine and approve the establishment or dissolution of branch organizations within and outside of China.
6. Examine and discuss other important issues relating to the bank.

Article 10. The Bank of China shall set up a Board of Supervisors, consisting of the head supervisor and several supervisors. All positions are to be appointed by the State Council.

Article 11. The duties of the Board of Supervisors are to:

1. Supervise the bank's execution of state policies and laws and of the bank's business objectives.
2. Examine the bank's report on the final accounts for the fiscal year.
3. Investigate important cases and make suggestions in the handling of such cases.

Article 12. The Bank of China shall have one president and several vice-presidents to be nominated by the chairman of the Board of Directors, and approved by the Board and appointed to office by the State Council.

Article 13. The president is responsible for the bank's entire business management and shall submit work reports regularly to the Board of Directors. He is assisted by the vice-presidents.

Chapter V. Conferences

Article 14. The Board of Directors shall meet once a year at a meeting to be convened by the chairman of the Board of Directors.

Article 15. The Board of Supervisors shall meet once a year at a meeting to be convened by the head supervisor.

The above-mentioned meetings can be convened earlier or be postponed depending on the need; or a joint meeting of the two boards may be called by the chairman of the Board of Directors. Meetings of the Board of Directors, of the Board of Supervisors, or of the joint boards, must have over two-third member participation including member representatives before meetings may be held. Items to be decided must have a simple majority of participating members for passage.

Chapter VI. Addendum

Article 16. These regulations, as well as the amended version, shall be executed after ratification by the State Council. 完

Four Marine Container Agreements Cause

Competition, Socialist Style

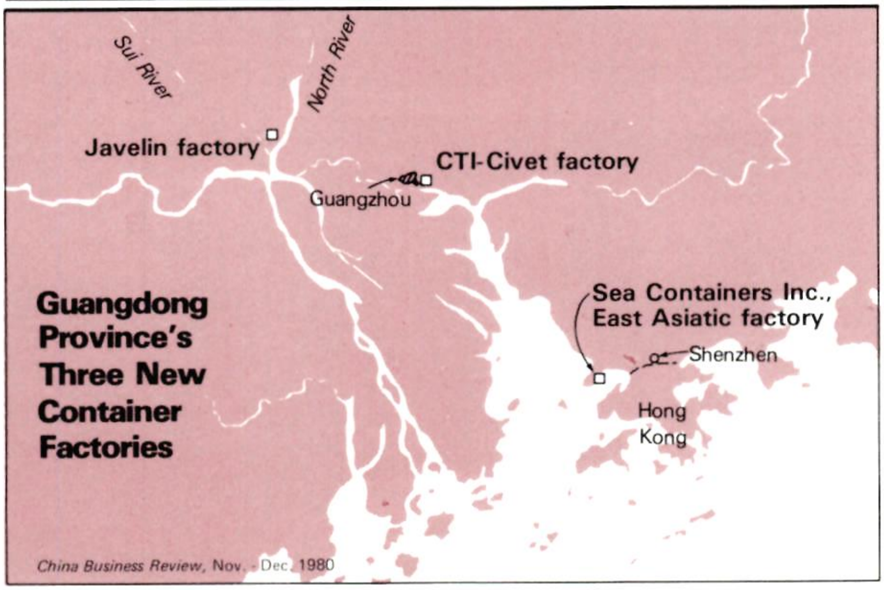
Dori Jones

"There will be competition, but this will cause faster development. Competition is the motive force of development. Whoever offers better equipment will be able to sell it."
—*Ma Xide, Water Transport Bureau, Ministry of Communications,* CBR *interview, September 6, 1980.*

Where once there was socialist monopoly, now there is competition, and foreign companies are beginning to feel the pinch.

The clearest example of competition between Chinese entities is the signing of four separate contracts with separate Chinese entities, all with different foreign companies, to build marine container factories in China. The contracts were signed within the last two years, and three of the four factories are to be located within 120 miles of each other in Guangdong Province (*see map*). A fifth contract is still under negotiation for a container factory in Tianjin.

The first contract was concluded in February 1979 by the China National Machinery Import and Export Corporation (MACHIMPEX) and the Guangzhou Shipyard, which is administered by the Sixth Ministry of Machine Building. Container Transport International (CTI) of White Plains, New York, has helped the Chinese build the factory, which was certified by Bureau Veritas in September 1980 and began production in late October. CTI expects the factory to reach full production by January 1981. CTI has exclusive right of first refusal to buy a minimum of 50,000 containers over five years from the factory, which will produce both 20- and 40-foot containers a year from four production lines. The plant is designed to produce 10,000 containers a year on a one-shift basis; with two shifts, the factory could eventually double its output.



Some surprising news came six months after CTI and its Hong Kong partner, Civet Investment Company, signed their contract: a Hong Kong firm called Javelin Company, Ltd., inked an agreement to build another container factory only 33 miles from the CTI-Civet plant. This time, a Chinese unit called Guangdong Provincial Overseas Enterprises had made the arrangements — apparently without consulting either MACHIMPEX or Guangzhou Shipyard. The Javelin contract differs only in that there is no guaranteed ready market for the containers produced there; no container leasing company has exclusive rights to buy the containers, which will be sold on the open market.

"What happened in the intervening time period is that the rules changed somewhat," said Fred Gutterson, CTI's vice-president for the Pacific region. "The focus on central control is now altered, and as a consequence, local organizations assumed unto themselves certain authority and decided to go out on their own and set up such a venture."

Five months later, another Chinese-owned entity with newly expanded powers, the China Merchants Steam Navigation Company of Hong Kong, decided to do the same. China Merchants, incorporated in Hong Kong but controlled by the China Ocean Shipping Company (COSCO) under the Ministry of Communications, signed a joint venture agreement to build a container factory, this time in the Shekou Special Economic Zone near Shenzhen, across the border from Hong Kong. The foreign partner is a consortium formed by the East Asiatic Company, Inc., and Sea Containers, Inc. SCI has the right to buy 5,000 20-foot equivalent units (TEUs) per year.

The Ministry of Communications recently joined the fray itself by signing a contract last summer through its Shanghai shipyard to build a container factory in Shanghai. A West German engineering company called Habatec will help build the factory, and a German container leasing company called Contrans will buy 30,000 containers over five years.

Most recently, a division under the Ministry of Foreign Trade has been negotiating with CTI and several other firms for construction of a fifth container factory in Tianjin.

No Coordinated Policy

Why so many factories, built by so many different Chinese organizations at once?

One factor is Guangdong Province's proximity to Hong Kong, making delivery of containers to international customers easy and cheap. However, the decision to build three factories in one province does not seem to have been centrally planned.

"It's obvious that the Chinese don't have a very coordinated or cohesive policy in dealing with foreign firms," said one company representative. "The local and provincial organizations are all striking out independently of one another. There's got to be some kind of problem somewhere along the line; in the future there's likely to be some reluctance on the part of a company to do this kind of thing without an assurance that the arrangement is exclusive."

In order to coordinate container efforts, the Chinese have set up two container corporations, one in Beijing/Tianjin, and one in Shanghai. However, these corporations seem to handle road movement of containers, loading, unloading, repair, cleaning, and storage, rather than manufacturing.

When asked about the apparent lack of coordination in China, CTI's Gutterson noted that "the Chinese were extremely forthright and above-board with us. They were absolutely honest in their dealings with us. However, other Chinese organizations became involved in it. The chance of that development was unknown to us and apparently unknown to our counterparts in China."

Despite its initial surprise, CTI is not overly worried about the effects Chinese competition will have on its arrangements, Gutterson said. Even though most of the containers produced by the various factories will be exported, CTI does not anticipate a glut on the Asian container market. The Chinese themselves are expected to become big users of standard international-sized containers, and the market is expected to grow quickly as more countries use containers and more goods are processed before shipping, thus shifting from bulk to containerized cargo.

Sea Containers was less sanguine about the potential effects of competition in Chinese container manufacturing. In October, Sea Containers' President James Sherwood proposed a reduction in the scale of the plant. Expressing concern that the market might be flooded with Chinese-built containers after the announcement of the German agreement, Sherwood nonetheless said the plans for the factory were going ahead. Sherwood will discuss his proposal with China Merchants soon.

As decentralization progresses and more Chinese organizations gain the right to deal with foreign companies, the possibilities for serious misunderstandings grow. 完

China's Container Factories

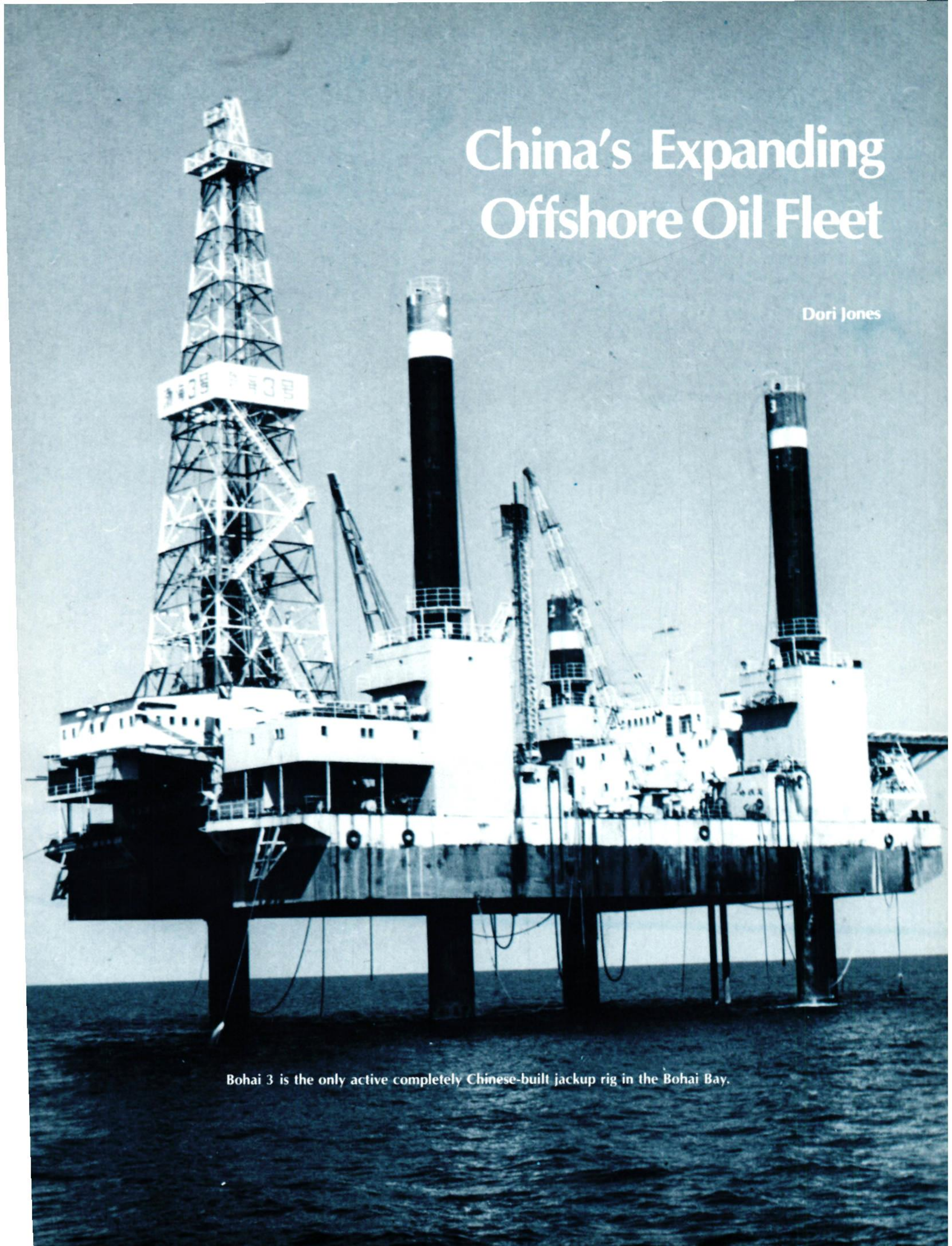
Foreign Company	Chinese Entity	Location	Annual Output Capacity	Contract Signed	Startup Date	Investment Cost	Buy-back Terms
Civet Investment Co. (HK), CTI	Guangzhou Shipyard (Sixth Ministry of Machine Building); and MACHIMPEX	Guangzhou Shipyard	over 10,000 TEU	Feb. 1979; construction began 6/15/79	Jan. 1981	\$12-\$13 million	\$110 million in buy-back; CTI has exclusive rights to purchase first five years' production, minimum of 50,000 TEU, at a fixed price
Javelin Co., Ltd. (HK) (RK Management Associates, Inc., of Granger, Indiana)	Guangdong Provincial Overseas Chinese Enterprises, Dawang State Farm	Junction of Sui and North rivers	10,000 TEU (first year)	Aug. 1979; construction began mid-Oct. 1979	late 1980–early 1981	\$12.5 million	Containers will be available for purchase on the international market
China Container Consortium, Ltd. (a partnership of Sea Containers, Inc., and East Asiatic Co.)	China Merchants Steam Navigation Co. (forming new joint venture: China International Marine Containers, Ltd.)	Shekou Industrial Zone, Shenzhen	3,500 TEU, increasing to 10,000 TEU by 1984*	Jan. 1980	early 1982	under \$10 million	SCI will buy 5,000 TEU per year
Contrans Gesellschaft für Container Verkehr GmbH (container leasing company) and Habatec-Selhorn Engineering GmbH (container engineering company) both of West Germany	Shanghai Shipyard, Ministry of Communications	Shanghai Shipyard	7,200 TEU	July 1980	Oct. 1981	DM 19 million (\$11.3 million)	Contrans will buy 30,000 containers from 1982 to 1986, valued at approx. DM 170 million (\$94.5 million)

*In October 1980 the president of Sea Containers proposed a decrease in the output of the factory.
TEU = 20-foot equivalent units

Table prepared by Don Jones.

China's Expanding Offshore Oil Fleet

Dori Jones



Bohai 3 is the only active completely Chinese-built jackup rig in the Bohai Bay.

China currently is building five jackup rigs in Dalian, Liaoning Province, and a semisubmersible rig in Shanghai. When these enter service in late 1981 or early 1982, China's total inventory of offshore rigs will surpass 20 (*see chart*). These will include 16 jackups, two semisubmersibles, several fixed platforms, and one catamaran drill barge. Ten of these rigs are Chinese-built.

The first of the jackups which China is building, Bohai 5, was completed in Dalian in August and is equipped with National Supply drawworks and pumps; Bohai 7, 9, and 11, also under construction at Dalian, as well as two other offshore rigs yet to be started, will have Continental Emsco equipment. (China uses even numbers to designate imported rigs and odd numbers for Chinese-made rigs used in the Bohai Bay.) Although these jackup platforms will be made in China, it is significant that they will be equipped with imported American drawworks and pumps.

China has substantially expanded its offshore drilling fleet by taking delivery of five completely equipped imported jackups within the last year. The first (Bohai 6) was built by Bethlehem Singapore; two were built by Marathon Le Tourneau (Bohai 8 and 10), and two were built by Hitachi Zosen (Nanhai 3 and 4) for use in the South China Sea. All five have National Supply 1320 drawworks and pumps. In fact, China now owns ten sets of National Supply 1320 drawworks and pumps on 9 of its 12 existing jackups and on one fixed platform, according to L.P. Baldwin, Far East area manager of the National Supply Company. Two of these sets were sold directly by the company, five were requested by the Chinese for inclusion on rigs ordered from shipyards, and three were already on used rigs purchased by China. The Chinese bought Continental Emsco drawworks for five jackups they will build, and their semisubmersible, purchased from Norway, also has Emsco equipment.

This rapid expansion in its stock of rigs has now satisfied China's needs for jackups, according to Tang Peiji of the China National Oil and Gas Exploration and Development Corporation. Future imports will depend on the speed of exploration (and on oil discoveries) in the Bohai Bay, Yellow Sea, and South China Sea, and on the development program still to be worked out in conjunction with foreign companies, Tang said.

However, China still needs semisubmersible oil rigs, according to Tang, who noted in August that the Ministry of Petroleum is considering building semisubmersibles in Dalian. For this project, the Chinese have enlisted the help of the Aker Group of Norway, which reportedly signed a licensing agreement this summer to construct up to four H-3 semis within two years at a cost of $50 million each. Some of the rigs may be used in China, and Aker ~~reportedly agreed to organize the~~ international marketing of the others.

China National Geological Exploration Corporation, under the Ministry of Geology, is constructing a semi in Shanghai, mainly with Chinese equipment, but it does not seem to be coordinating its efforts with the Ministry of Petroleum. The semi will have a water depth of 660 feet and seven Caterpillar engines.

At present, China owns only one semisubmersible — the Nanhai 2, formerly the Borgny Dolphin — imported from Norway in 1978. The Chinese have had considerable difficulty with this rig, which was towed to Japan for extensive repairs earlier this year. It was to return to South China in mid-September.

Bohai 3 Undergoes Repairs

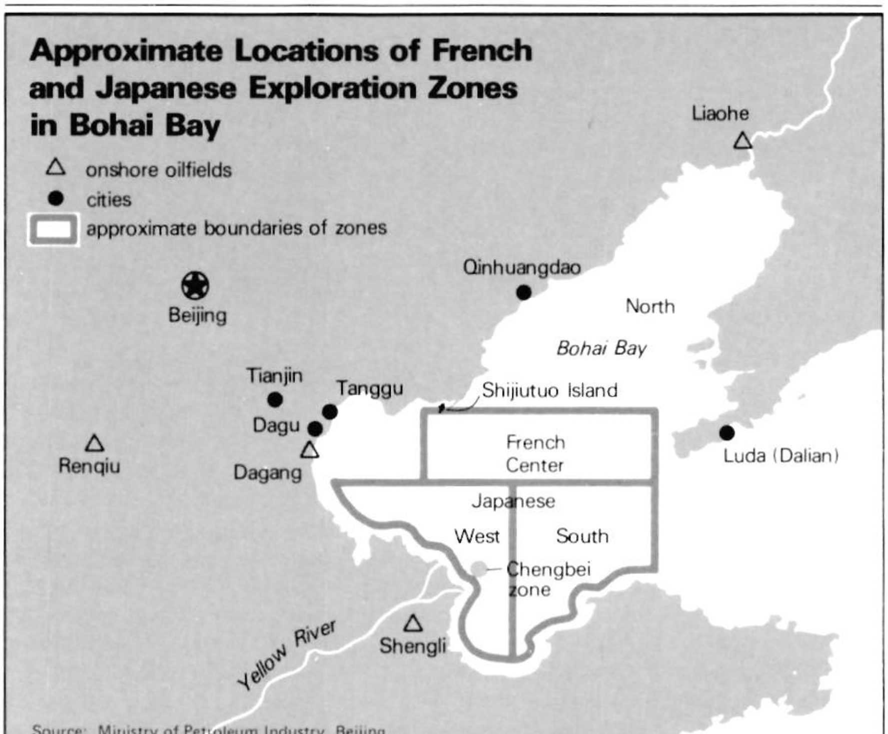
A rare first-hand look at one of China's offshore rigs, the Bohai 3, visited in August by a National Council petroleum equipment delegation, revealed it has drilled only one well since its launching a year ago: a 5,576-foot test well drilled in early 1980. Since April, the wholly Chinese-equipped jackup rig has been inactive due to corroded mud pumps and broken seawater pumps.

Built at Dalian in 1979, Bohai 3 contains mainly Chinese equipment, including a 200-ton movable drawworks, four 600 hp DC engines, three 500 hp AC engines, and three mud pumps. Its imported equipment includes only a P&H Kobe crane, Shaffer blowout preventer, Japanese seawater pumps, and French testing equipment made by Flopetrole.

Bohai 3 can drill up to 13,120 feet in 131 feet of water (its first well was drilled in 56 feet of water). Its four legs measure 256 feet high, and the structure can withstand winds up to 67 miles per hour and waves up to 26 feet, with a tide difference of 13 feet.

From April to September, Bohai 3 was located in the southern section of Bohai Bay, 30 nautical miles north of the Shandong Peninsula. The Chinese planned to move it in October to another location for drilling in conjunction with the Japanese exploration program.

This rig normally is operated by a crew of 108, each of whom works 11 months on the rig before getting one



Approximate Locations of French and Japanese Exploration Zones in Bohai Bay

Source: Ministry of Petroleum Industry, Beijing.
China Business Review, Nov. - Dec. 1980

month's vacation.

The only other completely Chinese-built jackup rig, Bohai 1, is at dock in Tanggu for repairs and may never be used again, according to one Chinese official.

Update on the Japanese Contracts

Bohai 3 is one of at least four jackup drilling rigs to be available for use by the French firm Elf Aquitaine and two newly formed Japanese firms, which signed contracts May 29 for exploration and development of oil resources in Bohai Bay. The Japanese, who will explore in the southern and western sectors of Bohai, (*see map*) will have access to Bohai 3 and Bohai 6, while Elf Aquitaine, which will supervise exploration in central Bohai, will have access to Bohai 4 and the newly delivered Bohai 10 built by Marathon Le Tourneau in Singapore. The Nanhai 1, 3, and 4 reportedly have been moved to the Gulf of Beibu (Tonkin) for use by the French firm Total. The Japanese-built Bohai 6 was, in August, the only active drilling rig in Bohai Bay.

The two newly formed Japanese companies which signed two contracts in May are the Chengbei Oil Development Corporation and the Japan-China Oil Exploration Corporation. Both are owned 60 percent by the government-owned Japan National Oil Corporation (JNOC) and 40 percent by private Japanese oil developers, refiners, electric utilities, and steel manufacturers. The two firms opened a field office in Tianjin on July 29.

The Chengbei company's contract is for development only in a small, well-explored area of western Bohai called Chengbei. Chengbei has estimated reserves of only 3 million tons and is to begin commercial production in 1983. The other new firm, Japan-China Oil Development Corporation, will work with the Chinese on both exploration and development in some 25,500 square kilometers (9,840 square miles) in southern and western Bohai Bay.

As one of its first moves, the Chengbei Oil Development Corporation contracted with Nippon Steel Corporation and Japan Oil Engineering Company to provide engineering services and draw up a master development plan for the Chengbei oilfield. The two engineering companies will begin by evaluating the safety and serviceability of existing offshore platforms already in use before proceeding with test production in Chengbei. China also agreed to halt its own test production at Chengbei field in September 1981 so that the two countries could begin joint production.

The Japan-China Oil Exploration Corporation agreed with the China Petroleum Corporation to drill three test wells in the southern sector beginning in October. The test drilling is based on geophysical surveying done by the Chinese earlier.

The Chinese expect to sign a contract with Atlantic Richfield for development of the Yinggehai area south of Hainan Island and to open part of Arco's area to open bidding.

A basic difference between the oil exploration and development contracts signed with the Japanese and with the French is that the Chinese side will make no further investment for exploration in the Japanese areas, whereas this possibility is still open in the French areas once the French match the previous investments made by the Chinese. According to Tang, the Japanese agreed to match previous Chinese investments, the value of which was estimated to be within a range agreed upon by the two sides. The Japanese have estimated exploration costs at $210 million over five years. Development costs of about $1 billion over the subsequent 15 years will be split 51-49 percent by the Chinese and the Japanese.

South China Sea Development Still in Limbo

The general outline of China's ambitious plans for offshore oil development in the South China Sea has become clearer lately. The Chinese expect to accept bids from the 46 eligible companies during June and July 1981 and to evaluate the bids by October 1981. In the first round of bidding, the Chinese will offer one-third of the area of the Pearl River Mouth Basin, or about 40,000–50,000 square kilometers. They will select blocks of about 300 square kilometers, and companies can join forces to bid on several blocks in a single geological structure at once.

Before the bidding opens in June, the Chinese have enormous tasks to accomplish:

- First, they must receive and analyze all the final reports interpreting seismic data. For this task, they have enlisted the help of Norway's state-owned oil company, Statoil, which will also advise China on the legal, technical, and economic aspects of granting offshore concessions to foreign oil companies. The Chinese hope to receive all final reports by March 1981, although some are not due till May. This analysis is needed to help them determine the size and location of the blocks to be tendered.
- Second, they plan to issue a tax law relating to natural resource development and a petroleum law before bidding begins. They plan to discuss taxation with the US government, but such discussions have not yet begun.
- Third, they must determine a standard contract form acceptable to foreign oil companies but still as favorable as possible to China, and decide on bidding procedures.
- Fourth, before bidding takes place, the Chinese hope to sign service contracts, possibly joint ventures, for drilling, helicopters, logging, cementing, material support, and spare parts. They have proposed joint ventures or technical service contracts to several offshore drilling contractors, possibly using Chinese-built semisubmersibles.
- Fifth, they plan to set up several support bases, possible in Lianyungang, Shanghai, south Hainan Island, Zhanjiang, Shenzhen, and Shantou.
- Finally, they expect to sign a contract with Atlantic Richfield for development of the Yinggehai area south of Hainan Island, and to open parts of the other half of the area Arco surveyed (over 10,000 square kilometers) for open bidding, prior to the bidding for the Pearl River Mouth Basin.

In July, the Chinese discovered oil for the second time in the Pearl River Mouth Basin, about 200 kilometers offshore. A Chinese petroleum official said in September that of 17 wells that have been drilled in Beibu Bay, Yinggehai, and the Pearl River Mouth area, 8 have produced oil.

CBR *staff writer Dori Jones based this report on her late-August visit to a Chinese-built jackup rig in Bohai Bay and on meetings with Ministry of Petroleum officials.*

China's Offshore Rigs, October 1980

Name, rig type	Construction, delivery	Performance	Work Area, Status	Foreign Equipment
Bohai 1 jackup	Dalian, 1972.	WD: 130′ DD: 10,000′	Docked at Tanggu for (possibly indefinite) repairs.	NL Shaffer BOP; Stewart & Stevenson Koomey BOP control system.
Bohai 2 jackup	Mitsubishi, 1969; imported 1973.	WD: 175′ DD: 15,000′	Capsized November 25, 1979.	Niigata drawworks; O'Hara pumps; Delong jacks; 4 Cat engines.
Bohai 3 jackup	Dalian, 1979.	WD: 131′ DD: 13,120′	Bohai south (Japanese sector); inactive since April.	P&H Kobe crane; Japanese sea-water pumps; Shaffer BOP; Flopetrole testing equipment.
Bohai 4 jackup	Hitachi Zosen for Rob Ray, 1977; delivery, 1977.	WD: 300′ DD: 25,000′	Bohai center (to be used by Elf or possibly lent to Japanese); only active rig in Bohai in September.	National Supply 1320 drawworks, pumps, jacks, and cranes (2); 1 Marathon crane; 5 Cat engines.
Bohai 5 jackup	Dalian, 1980.	Not known	Nearing completion in August 1980.	National Supply 1320 drawworks, pumps, and cranes (2); Cat engines.
Bohai 6 jackup	Bethlehem Singapore; purchased 1975, delivered March 1979.	WD: 250′ DD: 25,000′	Bohai south (Japanese area*).	National Supply 1320 drawworks, pumps, and cranes (2); 4 Cat engines.
Bohai 7	Dalian.	WD: 197′ DD: 19,680′	In Dalian, to be finished perhaps by late 1980.	Continental Emsco C-2 drawworks and pumps; Cat engines.
Bohai 8	Marathon Le Tourneau, class 82-SD-S; purchased 1978, delivered January 1980.	WD: 250′ DD: 20,000′	In Yellow Sea drilling first stratigraphic test well for BP; reported in October to be in Shanghai for repairs.	National Supply 1320 drawworks, pumps; Marathon jacks and cranes (2); 4 Cat engines; 4 GE alternators; Ross Hill SCR drive system; 1 Cat generating set.
Bohai 9 jackup	Dalian.	WD: 197′ DD: 19,680′ (estimated)	To be started in 1981.	Continental Emsco C-2 drawworks and pumps; Cat engines.
Bohai 10 jackup	Marathon Le Tourneau; purchase 1978; delivery 1980.	WD: 250′ DD: 25,000′	At dock, Tanggu; to drill in Bohai center (Elf area).	National Supply 1320 drawworks and pumps; Marathon jacks and cranes; Cat engines.
Bohai 11 jackup	Dalian.	Estimated to be same as Bohai 7.	To be started in 1981.	Continental Emsco C-2 drawworks and pumps; Marathon jacks and cranes; Cat engines.
Bohai 12 fixed platform	Delivery April 1979.	DD: 20,000′	Bohai center.	National Supply 1320 drawworks, system; Hydril and Cameron BOPs
Unnamed jackup	Dalian.	Estimated to be same as Bohai 7.	Planned.	Continental Emsco C-2 drawworks and pumps; Cat engines.
Nanhai 1 jackup	Robin Loh, Singapore; built 1976.	WD: 300′ DD: 20,000′	Beibu (Tonkin) Gulf for use by Total.	National Supply 1320 drawworks, pumps, jacks, and cranes (2); 1 Marathon crane; 5 Cat engines.
Nanhai 2 semisubmersible	H.K. Aker, Norway, 1974, H-3 design; purchased 1978.	WD: 1,000′ DD: 30,000′	South China Sea, after repairs at Zhanjiang.	Emsco C-3 drawworks and pumps; 4 Bergen engines; 2 Aker cranes; Cameron BOPs.
Nanhai 3 jackup	Hitachi Zosen, ordered June 1978; delivered January 1980.	WD: 300′ DD: 20,000′	Beibu Gulf.	National Supply 1320 drawworks, pumps, jacks, and cranes (2); 1 Marathon crane; GM engines.
Nanhai 4 jackup	Hitachi Zosen, ordered June 1978; delivered April 1980.	WD: 300′ DD: 20,000′	Beibu Gulf.	Same as Nanhai 3, above.
Kantan 1 catamaran drill barge	Hudong shipyard, Shanghai, 1974.	WD: 250′	Operated by China National Geological Exploration Corporation.	None known.
Kantan 2 jackup	Rob Ray, Singapore, built 1976.	WD: 300′ DD: 20,000′	Operated by China National Geological Exploration Corporation, Ministry of Geology.	National Supply 1320 drawworks and pumps; 5 Cat engines.
Unnamed semisubmersible	Shanghai shipyard.	WD: 660′	Under construction by China National Geological Exploration Corporation; to be finished in late 1981–early 1982.	7 Cat engines; no other foreign equipment known.

WD = water depth WD = water depth DD = drilling depth Cat = Caterpillar BOP = blowout preventer

NOTE: In addition to the above, China has several fixed platforms for drilling and production in Bohai Bay.

SOURCES: Chinese and American press reports; US oil equipment companies; and PRC petroleum officials.

Table prepared by Dori Jones.

China Bookshelf

General

China: US Policy Since 1945. Washington, DC: Congressional Quarterly, 1980. 387 pp. $10.95. The account of US-China relations since World War II includes a narrative on the topic and a day-by-day chronology of events affecting China and its relations with the rest of the world. Other sections contain biographies of Chinese officials and US policy-makers, texts, and documents. Charts and tables on Chinese demographics, economy, and government structure are appended.

China: A Brief History, by Nancy Faust Sizer. Wellesley Hills, MA: The Independent School Press, 1979. 197 pp. $4.50. Designed for high school and college students, this small book is a good introduction to Chinese history. The chapter essays, written as historical narratives, emphasize political events, and each is followed by documents describing Chinese society and political figures of the period.

Living in China, by 20 authors from abroad. Beijing: New World Press, 1979. Distributed by China Books & Periodicals, Mail Order Department, 2929 24th St., San Francisco, CA 94110. 341 pp. $5.95 Nineteen personal accounts by 20 authors who lived and worked in China, some for over 50 years, constitute this collection.

A Peking Diary: A Personal Account of Modern China, by Lois Fisher. New York: St. Martin's Press, 1979. 256 pp. $10.95. The wife of the *Die Welt* correspondent in Beijing recounts her experiences living in China from 1973 to 1976.

Economy

China's Transition to Industrialism: Producer Goods and Economic Development in the Twentieth Century, by Thomas G. Rawski. Ann Arbor: University of Michigan Press, 1980. 211 pp. $16.50. A study of China's transition to industrialism from the essentially agricultural economy of 1900, this work focuses on the contribution of producer industries, including the machinery, metallurgy, chemical, building materials, energy, and mining sectors. The author argues that the sequence — beginning with imports and leading successively to repair work, partial production, full-scale manufacture, and the expansion of domestic production beyond the initial range of imports — describes developments in China's producer sectors both before and after 1949.

Agricultural Situation: Review of 1979 and Outlook for 1980, People's Republic of China. US Department of Agriculture, Economics and Statistics Service, Room 0054 South Building, 14th St. and Independence Ave., SW, Washington, DC 20250. 49 pp. Single copies available at no charge. This issue of the annual review summarizes the major agricultural developments in China in 1979 and the outlook for 1980. Tables of production statistics and imports of commodities by source country are provided along with a list of 1980 US-China agricultural science and technology exchanges.

Science and Technology

Science, Technology and China's Drive for Modernization, by Richard P. Suttmeier. Stanford: Hoover Institution Press, 1980. 121 pp. $6.95. The study summarizes the new role of science and technology in post-Mao China, its organization, administration, manpower, and expenditures. The author analyzes China's science and technology policy in international relations and discusses the politics of Chinese science and Sino-American relations.

Nuclear Science in China, edited by D. Allen Bromley and Pierre M. Perrolle. CSCPRC Report No. 10. Washington, DC: National Academy Press, 1980. 204 pp. $15. The report of the 1979 nuclear science delegation to China provides an overview of Chinese nuclear science activities and details of educational institutions and research institutes involved in nuclear science.

Law

China and the Law of the Sea, Air, and Environment, by Jeanette Greenfield. Germantown, MD: Sijthoff and Noordhoff, 1979. 362 pp. $32.50. The product of a Cambridge doctoral dissertation, this well-documented book evaluates China's current practice of international law in the areas of the sea, airspace, and environment, and considers possible solutions to problems in those areas in the context of international law. Appendices include translations of relevant Chinese laws and regulations.

A New Look at Legal Aspects of Doing Business with China: Developments a Year After Recognition. Commercial Law and Practice Course Handbook Series No. 226. New York: Practising Law Institute, 1979. 790 pp. $20. Prepared for distribution at a Practising Law Institute program December 1979–January 1980, the book contains eleven papers on various legal aspects of trade with China. Appended are Sino-US agreements and protocols signed October 1978 through July 1979.

China Trade

China Trade Handbook, edited by Lawrence Fung. Hong Kong: The Adsale People, 1980. Distributed by The Asian Wall Street Journal, GPO Box 9825, Hong Kong. 295 pp. $38 seamail, $44 airmail. A most useful collection of information for China traders, the handbook contains economic statistics, including trade statistics by commodity for China's major trading partners, and the organization of China's government and trade. Foreign trade policy and practice is described, with major discussions of compensation trade, joint ventures, China's special economic zones, and the Guangzhou (Canton) Fair. Travel and advertising information is also provided.

Will They Ever Buy Our Products? A Handbook on Marketing and Advertising in China. Gothenburg, Sweden: Janson Marketing, 1980. Available from Janson marketing, Distribution Department PL 2091, S-43040 Saro, Sweden. 94 pp. plus appendices. $75. An up-to-date survey of political and economic developments in China introduces a guide to marketing in China and an analysis of the various media available for advertising. Two advertising campaign models are described. Included are price lists and rate-card information covering newspapers, the technical, trade, and popular press, radio and television.

Information Peking. Washington, DC: Welt Publishing, 1980. 145 pp. $15. This pocket-sized book contains lists of organizations and services related to the China trade. Brief information is provided on doing business with China and on tourist sites in China.

Prospects for PRC Hard Currency Trade Through 1985: An Update, by Damian T. Gullo. Office of East-West Policy and Planning, Room 4816, US Department of Commerce, Washington, DC 20230. July 1980. 18 pp. Single copies available at no charge. This East-West trade policy staff paper projects China's import capacity through 1985, showing capacity rising at an average annual rate of 22% and reaching $41 billion in 1985, with China's gross debt at the end of 1985 totaling $16 billion. The report analyzes current economic policy, foreign borrowing, and sources of hard currency revenue, and considers the outlook for US exports to China.

Travel

The Official Guidebook of China, edited by China Travel and Tour Press, Beijing. New York: Books New China, 1980. 345 pp. $9.95. In addition to a general introduction to China and details on cities and tourist sites, this well-illustrated guidebook, an "edition authorized by China Travel Service," provides authoritative information on visas; quarantines; customs regulations; telephone, telegram and cable services; currency regulations; and credit card use.

Books and business guides submitted for possible review in *The China Business Review* should be sent to the National Council's book editor, Marianna Graham.

Correction: To obtain *An Introduction to Education in the People's Republic of China and US-China Educational Exchanges,* which was listed in the "China Bookshelf," *CBR,* July–Aug., 1980, write US-China Education Clearinghouse, 1860 19th St., NW, Washington, DC 20009.

蝶

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SOURCES: Chinese officials; National Council PLA files; and CIA, *Directory of Chinese Officials: National-Level Organizations*, July 1980.

Chart prepared by Karen A. Berney, Kathryn L. Dewenter

EXPORTS TO CHINA: SALES AND NEGOTIATIONS THROUGH OCTOBER 15

The following chart contains recent reports of sales and negotiations exclusive of those listed in previous issues. The total value figure for sales includes only those deals that are listed as contracts or deals signed/won/secured/concluded. All others are counted as negotiations. The tables are prepared by the assistant librarian, Catherine Yelloz.

Company/Country	Product/Plant/Technology	Value (US dollars and local currency if known)	Status Date Announced
Agricultural Commodities			
(Argentina)	Agreement to supply wheat	NVG	agreement announced 8/6/80
(Sarawak)	Has sold in the first four months of 1980 a total of 216,797 m^3 of sawn logs	$13.6 million	sale announced 8/20/80
(New Zealand)	2,800 dozen of pickled lamb between October 1979 and June 1980	NVG	sold 8/30/80
(France)	500,000–700,000 m t of wheat annually for three years	$361 million (FF1.5 billion)	agreement signed 9/22/80
Agricultural Technology			
(USSR)	100 combines	NVG	contract concluded 8/20/80
International Harvester Co. (US)	Agricultural equipment	$7.5 million	order received 8/26/80
Berico Industries, Inc. (US)	Grain-drying, storage, and seed-cleaning unit	$2 million	sold 9/9/80
Chemicals			
Ube Industries (Japan)	320,000 m t of urea and 180,000 t of ammonium sulfate for July–Dec. 1980	NVG	agreement signed 9/2/80
Cantopex, Ltd. (Canada)	Will supply 650,000 m t of potash	NVG	announced 9/5/80
Chemical Plants and Equipment			
Nippon Paint Co. (Japan)	Paint manufacturing plant in exchange for 40% annual share of its products	$1.23 million	announced 8/22/80
Uhde (West Germany)	A 35,000 per year high-density polyethylene plant	NVG	announced 8/22/80
Herdis Group (Philippines)	Plant to produce 6,000 t cellophane per year	NVG	memorandum of agreement signed 9/80
Sigma Coatings (Hong Kong)	Paints for Guangzhou container manufacturing plant	$2.5 million	contract won 9/80
C. Itoh and Co. (Japan)	Contract to help build ethylene production complex in Shandong	$152 million	contract won 9/15/80
Construction Materials and Plants			
Herdis Group (Philippines)	Cement plant with a mill. t per year capacity, to be located in Jilin Province	NVG	memorandum of agreement signed 9/80
Consumer Goods			
(Chile)	25,000 t of Chilean saltpeter	NVG	agreement signed 7/80
Herdis Group (Philippines)	Cigarette filter plant in Beijing or Tangshun	NVG	memorandum of agreement signed 9/80
Electronics			
Hitachi (Japan)	Installation of two computer-based control systems	$8.35 million	order received 7/80

Company/Country	Product/Plant/Technology	Value	Status Date Announced
Hitachi Maxell, Ltd. (Japan)	a) 2 mill. reels of 60-minute audio magnetic tapes	NVG	contract concluded 7/29/80
	b) Supply of magnetic-tape manufacturing plants	NVG	negotiations announced 7/29/80
Mitsubishi Corp., Fujitsu, Nippon Yusen Kaisha, and Mitsubishi Office Machinery Co. (Japan)	Supply of computer system to handle Chinese-character data	$1.11 million (¥250 million)	tentative order won 8/20/80
Pye TVT (UK)	A three-camera Video 80 system and a video noise reducer	$398,025 (£168,000)	will export 8/20/80
Scope Data Systems, Ltd. (UK)	Eight NC-2401 data preparation flexowriters	$85,300 (£36,000)	purchased 8/23/80
Herdis Group (Philippines)	Will produce mill. units each of black and white TV capacitors and color TV conductors per year	NVG	memorandum of agreement signed 9/80
Corning Glass Works (US)	Agreement to design, help, equip, and start up a black and white TV tube-bulb plant	NVG	agreement announced 9/16/80
Omron Tateisi Electronics Co. (Japan)	Production of magnetic switch relays on subcontract basis.	NVG	agreement signed 9/29/80
Hitachi, Ltd. Matsushita Electric Industrial Co. Victor Co. of Japan Tokyo Sanyo Electric Co. Nippon Electric Co. (Japan)	Color TV production equipment	NVG	agreement announced 10/2/80
Food Processing and Packing			
United Brands (US)	Technology for canning food, agricultural, and meat products	NVG	memorandum of understanding announced 10/2/80
Machinery			
G.D. Engineering (Australia)	Two stretch wrap machines	NVG	sold 7/80
Reishauer AG (Switzerland)	Gear-grinding machinery and a thread-grinding machine	NVG	order received 7/80
Linde Corp. (West Germany)	Cooperation in producing four oxygen-generating machines	NVG	contract signed 9/17/80
Mark Controls International (US)	Cooperation in producing butterfly valves	NVG	agreement signed 9/17/80
Machine Tools			
Ace Corp. (Japan)	Joint nut and bolt production enterprise in Tianjin	NVG	agreement reached 8/19/80
Metal Mining and Processing			
Research Inst. for Metals (Japan)	A five-year joint research program to refine low-grade columbium containing iron ores, and to extract columbium	NVG	negotiations announced 7/8/80
Kobe Steel, Ltd. (Japan)	Aluminum foil plant	$13.3 million (¥3 billion)	order received 9/5/80
Petroleum and Natural Gas			
KCA Feoso (Hong Kong) KCA International (UK	Compensatory trade agreement to supply and install a barite grinding mill	$3.5 million	agreement signed 7/30/80
Scientific Instruments			
Baird Corp. (US)	580,000 optical spectrometers to chemically analyze metals	NVG	order obtained 8/21/80

Company/Country	Product/Plant/Technology	Value	Status Date Announced
Druck (US)	Precision pressure transducers and digital pressure indicators for aircraft industry	NVG	will supply 8/23/80
Shipping			
Maritima Antares (Greece)	a) Bulk carrier, "Angela Pando," 35,110 dwt, 14,073 gross, built 1979 b) Bulk carrier, "Laura Pando," 26,796 dwt, 10,645 gross, built 1979	$33.5 million for both	sale announced 7/22/80
Nea Armonia Shipping Co. (Greece)	Bulk carrier, "Evangelia C," 52,402 dwt, 29,424 gross, built Haverton Hill, 1967	$9.2 million	sale announced 7/22/80
Fathers Island Corp. (Greece)	Bulk carrier, "Nicolaos Pateras," 30,401 dwt, 17,298 gross, built Rijeka, 1973	$11.31 million	sale announced 7/22/80
Ostria Maritime Corp. (Greece)	Bulk carrier, "Ostria II," 38,264 dwt, 20,571 gross, built Leningrad, 1971	$12.45 million	sale announced 7/22/80
Pilio Shipping Corp. (Greece)	Bulk carrier, "Pilio," 50,789 dwt, 29,606 gross, built Sunderland, 1967	$9 million	sale announced 7/22/80
Sparto Compania Naviera SA (Greece)	Bulk carrier, "Thalassini Avra," 79,759 dwt, 38,941 gross, built Luebeck-Siems, 1973	$19.55 million	sale announced 7/22/80
Cast Motor Vessels Co. (UK)	a) Motor bulk carrier, "Cast Dolphin," 52,021 dwt, 29,833 gross, built Copenhagen, 1972 b) Motor bulk carrier, "Cast Orca," 51,072 dwt, 30,078 gross, built Copenhagen, 1973	$27 million for both	sale announced 7/29/80
Singa Nav Pte. (Singapore)	Motor bulk carrier, "Norman Merchant," 53,850 dwt, 30,815 gross, built Sunderland, 1967	$9.75 million	sale announced 7/29/80
(Norway)	a) Bulk carrier, "Vinstra," 63,000 dwt, built 1975 b) Bulk carrier, "Vesteroy," 63,000 dwt, built 1975	$40 million for both	sales announced 8/8/80
NA	Bulk carrier, "Dimitros A. Lemos," 74,212 dwt, built 1973	$18 million	sale announced 8/8/80
(United Kingdom)	Bulk carrier, "Amorgos," 59,662 dwt, built 1970	$13 million	sale announced 8/8/80
NA	Bulk carrier, "Tramontana," 38,203 dwt, built 1971	$12.6 million	sale announced 8/8/80
NA	Bulk carrier, "Griesheim," 34,150 dwt, built 1972	$11 million	sale announced 8/8/80
NA	Bulk carrier, "Kalliopi," 28,957 dwt, built 1976	$12 million	sale announced 8/8/80
Prespa Shipping Corp., Ltd., Laberousa Shipping Corp., Ltd., and Makri Shipping Corp., Ltd. (Greece)	General cargo motorships, "Aegis Captain," "Aegis Pilot," and "Aegis Sailor,' 15,780 dwt, 9,567 gross, built Bilbao, 1978	$25 million for all three	sold 8/12/80
(Spain)	Three Spanish-built TD15-type ships	NVG	sale announced 8/13/80
Wai Gin (Hong Kong)	Order to supply and outfit ten lifeboats on the PRC's cruiseship, M.V. Ming Hua	NVG	order won 8/20/80
Mitsubishi Heavy Industries (Japan)	Will provide two years of technical assistance to a Shanghai shipyard	$450,000 (¥100 million)	agreement signed 8/22/80
Habatec-Selhorn and Container Transport (West Germany)	A five-year compensatory trade agreement involving: a) construction of container plant for Shanghai Shipyard.	$11.3 million	contracts won 8/25/80

Company/Country	Product/Plant/Technology	Value	Status Date Announced
	b) agreement to buy containers from shipyard	$96 million	
Hitachi Shipbuilding and Engineering Co., Namura Shipbuilding and Sasebo Heavy Industries (Japan)	Six 60,000 dwt Panamax bulk carriers	NVG	provisional order announced 9/5/80
Maschinenfabrik Augsburg-Nürnberg AG (West Germany)	Agreement to help China build several types of diesel ship motors	NVG	announced 9/25/80
Burmeister & Wain (Denmark)	Will build four 64,000 dwt bulk carriers for China	$145 million	contract announced 10/2/80
Steel and Steel Products			
(Japan)	180,000–200,000 seamless steel pipes	NVG	negotiations announced 7/19/80
Telecommunications			
Cable and Wireless (UK)	Hopes to install microwave telephone link between Hong Kong and Guangzhou	NVG	announced 7/80
Marconi Instruments (UK)	Communications test equipment to be used in educational and research institutions as well as in telecommunications centers	$213,228 (£90,000)	contract signed 8/1/80
Singapore Technical Services (Singapore)	Contract to install telecommunications network for an attempt to extinguish an oil-rig blowout	$286,000	contract won 8/1/80
Cable and Wireless Systems (Hong Kong)	Will supply and install telephone exchange in Shekou in Guangdong Province	$500,000	contract signed 9/80
Textile Products			
(Egypt)	Yarn	$15 million	announced 8/15/80
Toray Industries, and Teijin, Ltd. (Japan)	10,000 mt of polyester-staple fiber with delivery expected by end of year	NVG	announced 8/20/80
Trans-Market Research (Hong Kong)	Agreement negotiated providing for graduated commitment; involves sale of Guangzhou toweling products in the US	NVG	deal finalized 9/80
Transportation			
TRAC International Corp., and Great Eastern Development, Ltd. (US)	Bicycle import/sales distribution venture	NVG	deal finalized 7/25/80
Daimler-Benz AG (West Germany)	Spare parts and service for Merdeces-Benz vehicles	NVG	agreement signed 8/14/80
Leyland Vehicles (UK)	27 Leyland Clydesdales and three Leyland Viking chassis to be used for bus service between Hong Kong and Guangdong Province	$1.9 million (£800,000)	order received 8/16/80
Japan Automobile Sales Co. (Japan)	Joint venture to set up taxi service near Guangzhou	NVG	contract signed 8/27/80
Emery Air Freight Corp. (US)	Agreement under which Emery will be sole air-freight forwarder for US cargo destined to China	NVG	agreement signed 8/29/80
Lockheed-Georgia Co. (US)	Joint ventures on commercial products	NVG	discussion announced 9/24/80
Miscellaneous			
Ricardo Consulting Engineers, Ltd. (UK)	Contracts to supply technical assistance and consultation in the field of internal combustion engines	$2.2 million	contracts signed 7/80
Mitsui Group (Japan)	A five-year economic and technical cooperation agreement	NVG	agreement signed 7/28/80

Company/Country	Product/Plant/Technology	Value	Status Date Announced
Modern Talking Picture Service (US)	Distribution pact	NVG	signed 8/80
Greening Donald Co., Ltd. (Canada)	96 reels of wire rope	$1.5 million	sold 8/7/80
Speedo Holdings, Ltd. (Australia)	A two-year agreement to improve standard of swimming and other aquatic sports	NVG	agreement signed 8/9/80
US Wheat Associates (US)	Cooperative contract to establish modern bakery and bakers' training program in Beijing	$1.5 million	contract signed 8/11/80
US-China Trade Consultants, Inc. (US)	Exclusive agreement to coordinate American participation in planning wide range of projects to modernize Beijing	NVG	agreement signed 8/14/80
Seiko, Citizen, and Orient Companies (Japan)	2.48 mill. watches for delivery before March 1981	$33,415 (¥7.5 million)	order placed 8/20/80
(Portugal)	600,000 tons of pulp paper for next three years	NVG	announced 8/26/80
Victorian Forests Commission (Australia)	A gum tree forest to be established in Nanjing in exchange for typical Chinese garden in Melbourne	NVG	announced 8/26/80
Herdis Group (Philippines)	Sanitary towels, sensitive tape, strawboard, typewriting paper, tissue paper, citric acid, ceramics and enamel, bicycle plant, batteries for watches and clocks	NVG	memoranda of agreement signed 9/80
ATI Equities (US)	Agreement with China Sports Service to present a rodeo and a pop music concert	NVG	agreement signed 9/10/80
UN Fund for Population Activities (UNFPA)	Agreement to provide technical assistance in curbing nation's population growth	$50 million	agreement signed 9/12/80
Mono Printing and Typesetting Equipment Co., Ltd. (Hong Kong)	An entire English-Chinese phototypesetting system	NVG	order received 9/14/80
Licenses			
Limitorque Corp. (US)	A valve-actuator licensing agreement	NVG	agreement negotiated 9/22/80
Sales and Negotiations by Overseas Chinese Enterprises			
Kong and Halvorsen Marine and Engineering Co. A. Fai Engineers and Ship-repairs (Hong Kong)	Joint venture with China Merchants Steam Navigation Co. to build yachts at Shekou in Guangdong Province	NVG	agreement announced 9/80
Lun Tak Co. (Hong Kong)	A 52.5 million ft^2 tract of farmland in an area of Hong Kong's New Territories to Beehive Enterprises, Ltd. (51% controlled by China Resources Co.)	NVG	sold 9/24/80

Total value of 1980 sales listed through October 15 .... $ 3.9 billion+
Total value of 1980 negotiations listed through October 15 .... $ 2.7 billion+
Cumulative value of sales from January 1, 1979, through October 15 .... $11.3 billion+
Cumulative value of negotiations from January 1, 1979, through October 15 .... $ 4.6 billion+

NVG = No value given

NOTES: Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly average rate quotes in *International Financial Statistics (IMF)*.

Contracts concluded over two months ago are also included, if they were not reported in the last issue of the *CBR*.

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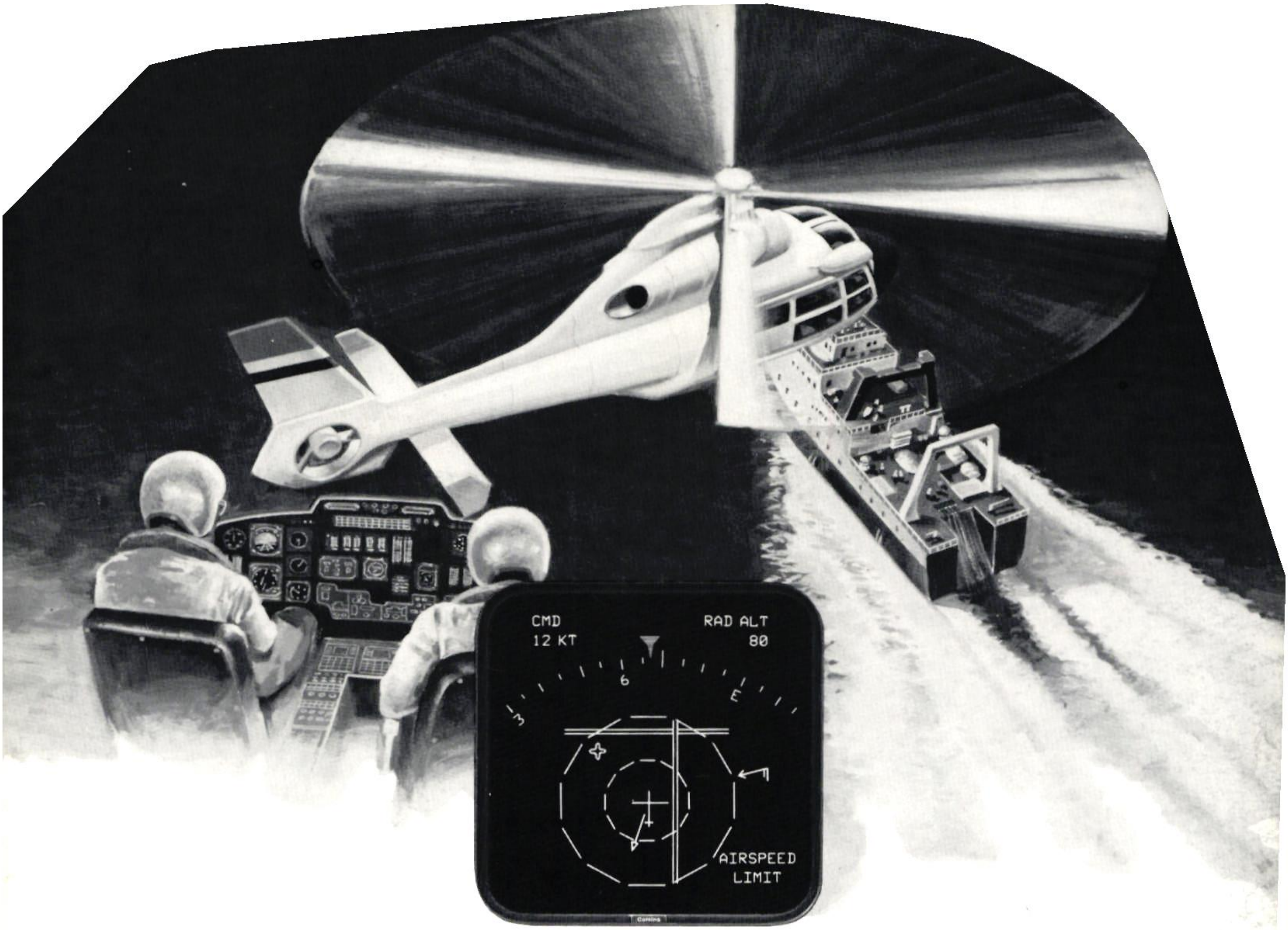

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Helicopter operations at night and in weather are difficult — particularly if hover is part of the game. Now there's help. A new autopilot specifically designed to assist in all phases of flight, including transition to hover. And it's available from a world leader in the avionics industry, the Collins Avionics Divisions of Rockwell International.

By managing the aircraft through all flight regimes, including the transition to hover, the Collins autopilot frees the pilots to concentrate on managing a successful mission. The autopilot is tailored to helicopter requirements, with features including full collective control. This takes advantage of such unique helicopter capabilities as steep angle descent and very slow flight. With the companion three-axis flight director installed, fully coupled flight is provided. Optional electronic display (HSVD) provides integrated display of HSI, map, radar and FLIR.

The Collins autopilot is part of a fully integrated maritime surveillance avionics package now being installed on the U.S. Coast Guard Short Range Recovery (SRR) helicopters. With the associated mission computer and multiplex bus system, the integrated system provides precise coupled navigation for land-based and offshore operations, automatic radio management including data link, and engine/transmission/fuel monitoring.

We can meet the operational needs of virtually any helicopter for civil, government or military applications. For details, contact Collins Government Avionics Division, Rockwell International, Cedar Rapids, Iowa, 52406. 319/395-4412.

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