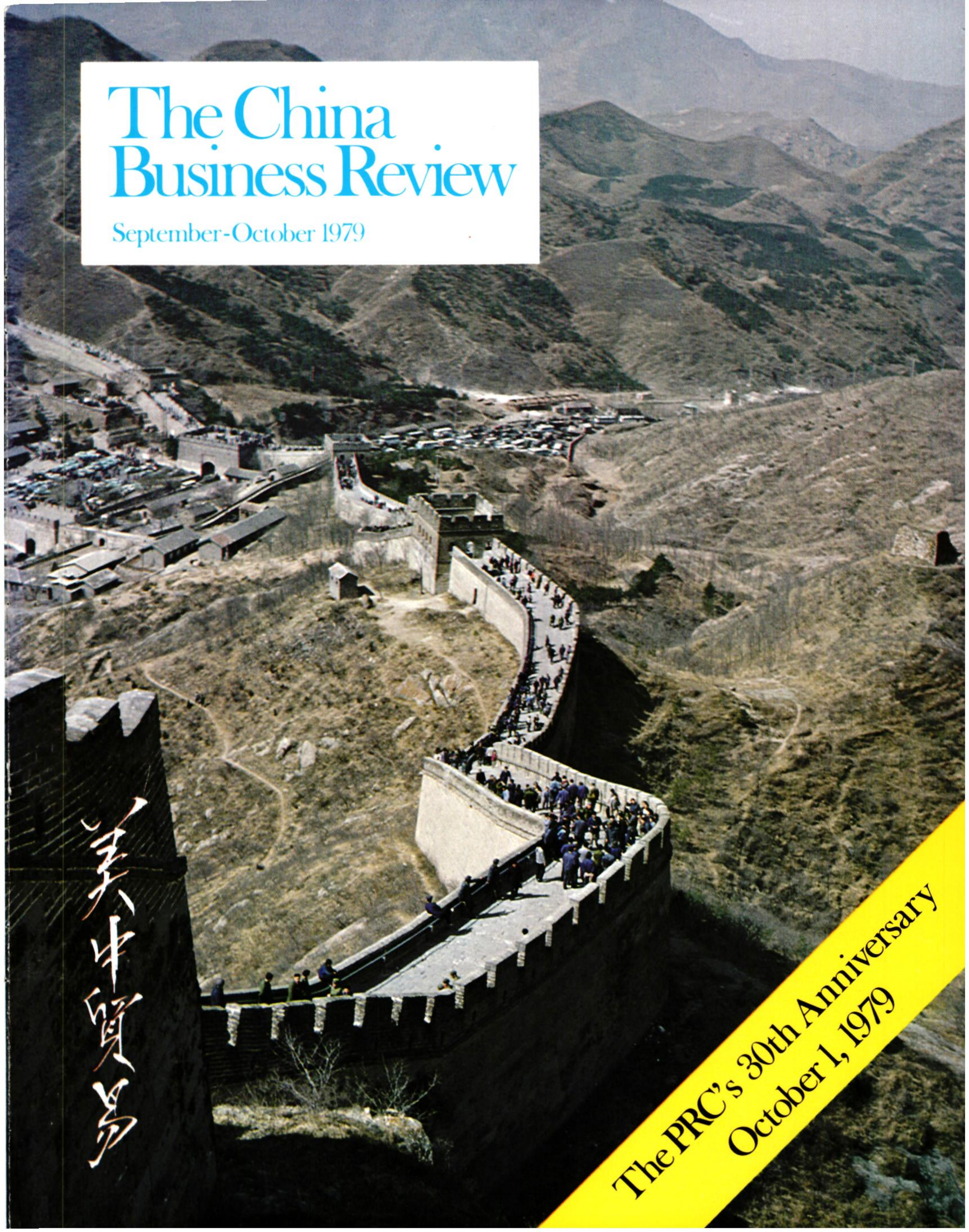
The China Business Review

September-October 1979



The China Business Review

September-October 1979—Volume 6, Number 5

The Magazine of the National Council for US-China Trade

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Front Cover Photograph *by Stephanie R. Green*

DEPARTMENTS

CHINA DATA

THE CHINA BUSINESS REVIEW is published bimonthly by the National Council for US-CHINA Trade, 1050 17th Street, NW, Suite 350, Washington, DC, 20036, USA. The National Council is a nonprofit organization incorporated under the laws of the District of Columbia. THE CHINA BUSINESS REVIEW is published principally for members of the National Council. Controlled circulation postage paid at Washington, D.C. The magazine is available for subscription in the US and Canada at $60 per year; elsewhere at $75 a year including airmail postage. Articles in the Review do not reflect Council policy, unless indicated.

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

China Trade Events

NEW YORK, NEW YORK, October 9–December 11
New York University will sponsor a ten-part series of lectures and discussions on foreign policy. A staff member from the National Council will discuss "China in the Future of American Business" on December 4. Contact Albert L. Weeks, (212) 598-2395.

HONG KONG, October 10–11
Business International will hold a conference on China trade. Write Business International Institute/Asia, 301 Asian House, 1, Hennessy Road, Hong Kong, Att: Mrs. Lois Dougan Tretiak.

NEW YORK, NEW YORK, October 11–12
The American Management Associations will sponsor a conference on "Technology Markets in China." The lectures will focus on strategies and techniques for selling to China in five major areas: materials, energy, agriculture, transportation, and electronics. Contact AMA Registrar, (212) 246-0800.

LONDON, ENGLAND, October 16
The Confederation of British Industry, in cooperation with the Sino-British Trade Council and the China Association, will hold an all-day conference on the latest developments in China trade. Topics for discussion include UK-China relations, compensation trading, and joint ventures. Write Miss K. Castle, Conference Department, CBI, 21 Tothill Street, London, SW1, England.

PITTSBURGH, PENNSYLVANIA, October 19
Jack Dewenter, Special Assistant to the President at the National Council, will speak on the current state of US trade with China at a briefing sponsored by the World Affairs Council. Contact Judy Nees, (412) 281-7970.

CAMBRIDGE, MASSACHUSETTS, October 19–20
The East Asian Research Institute at Harvard University will sponsor a conference on recent Sino-American relations and their impact on the Western Pacific. This will also involve discussion of China's foreign policy, and its goals and capabilities. Contact Roy Hofheinz, (617) 495-4046.

CHARLOTTESVILLE, VIRGINIA, October 26–27
National Council Vice President Stanley Young will discuss China trade at a colloquium sponsored by the University of Virginia School of Law. Contact Karin L. Lawson, (804) 924-3087.

CHICAGO, ILLINOIS, November 7
National Council President Christopher H. Phillips will speak on China trade at a luncheon meeting sponsored by the Chicago Committee on Foreign Relations. All sessions are strictly off-the-record. Contact Arthur Cyr, (312) 726-3860.

ANN ARBOR, MICHIGAN, January 18
The Division of Management Education at the University of Michigan will hold a one-day conference on China trade. Contact Barbara Butts, (313) 763-1000.

MIAMI, FLORIDA, January 24–25
National Council President Christopher H. Phillips will discuss the latest developments in China trade at a nationwide conference sponsored by the University of Miami on "Trade With China—A New Business Horizon." Write Alfred H. Arbuthnot, School of Continuing Studies, P.O. Box 248005, University of Miami, Coral Gables, Florida 33124.

Window-shopping in Beijing.

Credit: Bob McNeely

CHINA WIRE

HOTLINE FROM BEIJING—THINK TANKS ARE IN

As Beijing's long, hot summer blistered on, China's planners were cloistered in different groups, trying to assess the economic future. At the same time, as never before, citizens of the People's Republic have been fanning out all over the world—individually, doing things that, even a year ago, would have been considered unthinkable.

Think tanks one through four have been organized by Chen Yun's Finance and Economic Commission during the past few months to study:

—Reform of the economic system: looking at production, distribution, and consumption "inside and outside enterprise." Management systems are the focus of study: what kind of management system may "slow or push forward" production? what different kinds of systems are used for planning, material supplies, commercial work, commodity prices, and wages/labor costs?

—Reform of the economic structure. "It is necessary to readjust the proportions within heavy industry so as to meet the needs of developing other national economic departments." This group will also study "the proportions between accumulation and consumption" and "industrial and technical structures, structures of economic organizations, ownership, products, employment, investment, and regional and urban-rural structures."

—Study of how to effectively use foreign investment and introduce foreign technology, equipment, and management experience. The key concern of this group is the question of reforming existing enterprises and improving their production, technical, and management levels "by introducing and studying advanced foreign experiences so as to gradually modernize them." This group has established what it calls "liaison centers" and mapped out the targets of its study in some detail.

—Economic theory assessment. This group will take the question of "finished products" and make plans and arrangements for "production by the whole society" and "take the goal of whether the finished products can be increased to the utmost possible as the fundamental criterion for measuring the results of the total economic work of our society."

The ministries of agriculture, communications, forestry, finance, industry, trade, and water conservancy have established their own groups for study of system reform, economic structure, and introduction of foreign technology.

Meanwhile, in agriculture, Beijing has announced a record harvest which may mean less grain from abroad. Twenty-five agriculture targets for 1985 were announced in a document recently released from the Central Committee of the Chinese Communist Party. The message of the document is clear: only material incentives can prod farmers into realizing "the superior qualities of socialist agricultural economics."

China's financial and commercial sectors are also under review. Students at finance and economics institutes will be increased from 21,000 at present to about 40,000 by 1985, and China's 22 finance and economics institutes will be expanded by ten in the next few years.

A study of China's present economists, as featured in the 1978-79 pages of Jingji Yanjiu (Economic Research) by Bruce L. Reynolds, confirms that the Cultural Revolution left a yawning generation gap in the ranks of professional economists. Only five percent of those who wrote for the magazine in the early 60s have reappeared: these were the Chinese students of the 50s. Their teachers, trained pre-1949, are much better represented today. But 78% of those publishing in the journal since it reappeared January 1978 have never published before, indicating a small group of very senior economists is passing the torch to a very large number of young scholars.

Reorganization of China's foreign trade establishment is scheduled for the spring of 1980: English at Beijing's FTI will be subordinated to training in foreign trade.

TAIWAN-PRC TRADE MAY EXPAND FAST

Taiwan-PRC trade, once a no-no, is now ready to move, as both sides realize each other has plenty to offer: trade for technology, oil for expertise, food for manufactured goods. PRC Ministry of Foreign Trade officials talked to their Taiwan counterparts at a US management course this summer, and have had other contacts. How will it happen? Through Hong Kong, Japanese trading companies, and US multinationals first, then direct. Still to be resolved: will China's FTCs, which are supposed to handle foreign trade, deal with Taiwan too? Answer: FTCs, such as SINOCHEM and CEROILFOODS, already have a domestic distribution network, deal with Hong Kong and Macao, can add Taiwan to their bailiwick.

MADISON AVENUE, SHANGHAI, BEIJING

Meanwhile, lining up at 42nd Street for the Chinese promotion sweepstake are some of Madison Avenue's biggest firms including Ogilvy and Mather, N. W. Ayer, and McCann-Erickson: these and others have been discussing various campaigns with the Shanghai Advertising Corp.

China itself is intensively studying the most effective way to organize for export, with special emphasis on expansion of company export staff and assessment of whether a firm should go direct or use a trading company.

One thing China can't promote at the moment is sales: big companies and some small ones have been told the same things: (a) no major sales till November, December, January (nothing in the budget); (b) whatever the deal, buy product back if possible; and (c) arrange to provide the PRC with as much as possible for the least amount. The pendulum swings.

Credit: Xinhua

The 5th National People's Congress adopted China's first joint-venture law July 1—CITIC, headed by Rong Yiren, will facilitate foreign investment.

Investment in China

An Exclusive Interview with Rong Yiren

Rong Yiren, head of the China International Trust and Investment Corporation (CITIC), agreed to address CBR's *readers before he came to the United States this fall. This exclusive interview was conducted on September 14, 1979, in Beijing by Mr. John C. Bullitt, partner-in-charge of Shearman and Sterling's office in Hong Kong. Rong's biography appears on page 7.*

What is CITIC and what is its purpose?

The China International Trust and Investment Corporation is a Chinese government agency, directly responsible to the State Council. It is a business enterprise charged with promoting foreign investment in China. We will work with foreign investors in finding business opportunities for them in China, putting them in touch with potential Chinese partners, assisting them in negotiating the terms of a joint venture, and maintaining a friendly interest in their success. If a foreigner wants to invest in China but has no specific idea, we will advise him of opportunities. On the other hand, we will also find suitable foreign partners on the request of our national enterprises.

During the past few months, almost every day representatives of foreign companies have come to our office expressing interest in investing in China. We are ready now to discuss proposals and to help our foreign friends in discussions with Chinese enterprises.

Who will have the right to approve joint ventures?

The CITIC will not have the function of approving joint ventures, which will be up to the Foreign Investment Control Commission.

You are vice chairman of the Chinese People's Political Consultative Conference and a member of the Standing Committee of the National People's Congress, among other positions. Why has a man of your position been chosen to head CITIC?

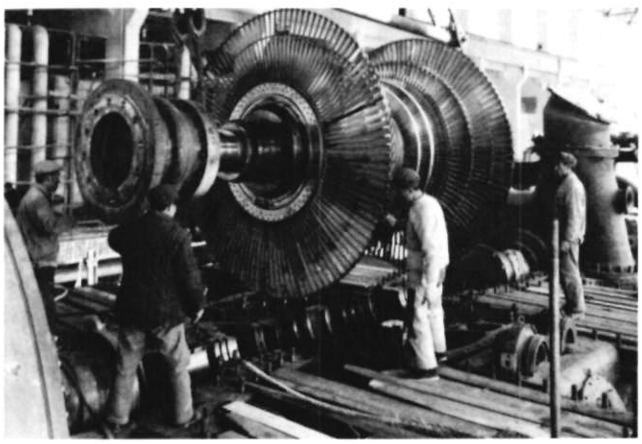
This appointment demonstrates that the government is laying special emphasis on the function and future prospects of this new enterprise in promoting closer and more extensive economic cooperation with our foreign friends all over the world in the fields of economic and technical technology and know-how. That is also one of the reasons I and my party are paying a visit this October to the United States, to have a talk—many talks—with your great people.

Why has China adopted a joint venture law?

In June, 1979, at the second session of the Fifth National People's Congress—the People's Republic of China's supreme lawmaking body—seven laws of great significance to China's future were adopted. These laws show the determination of our government to establish the rule of law internally and to cooperate internationally on the basis of equality and mutual benefit. The seventh of these laws is the joint venture law, which became effective July 8, 1979—the first law in China's long history to provide an objective basis for investment by foreigners, on a cooperative basis, with Chinese enterprises in profit-making business ventures.

China is well aware that, in order to achieve our four modernizations, first of all we must rely on ourselves, but we also need to import foreign capital, technology, equipment and know-how to accelerate the pace of modernization. Some socialist countries have found that joint ventures with developed country enterprises is an effective way of doing this in a practical and well-planned manner. We expect joint ventures to contribute to the socialist modernization of our country and bring closer the day when we will have our own highly developed enterprises.

PRC factories are now encouraged to contact foreign companies directly.



Credit: China Features

Why do you think foreigners will be interested in investing in China?

Past record shows that China has a well-deserved high credit standing. The same respect for foreign obligations that has earned this reputation is embodied in the joint venture law at the outset: Article 2 states that, "The Chinese government shall protect . . . the capital invested in the joint venture by the foreign joint venturer according to the agreement, contract and articles of incorporation approved by the Chinese government, its share of the profits and its other lawful interests."

This means that the supreme lawmaking body of the People's Republic of China has guaranteed that the provisions of a joint venture, when approved in accordance with the procedures specified in the joint venture law, will be observed. So that once agreement is reached and approved, foreign investors should be as confident as China's creditors are that the terms of the joint venture will be faithfully carried out by the Chinese side.

And in operating joint ventures, one of China's objectives will be similar to the foreign participant's: that is, to maximize profits within the context of the articles and agreements establishing the joint ventures.

Many foreigners have already expressed keen interest in investing in China, and many millions of dollars of investment have been agreed to, so there is obviously great interest. Objectively speaking, China has abundant natural resources, a hardworking people quick to learn, and a leadership determined to carry out the people's wish to modernize. Also, while joint venture wages will be appropriately higher than those of state-owned enterprises in the same locality, because a higher educational and technical level of competence will be required for joint venture workers, they will be lower than those in Western Europe, the United States, Japan, Hong Kong, and other places.

Aren't other laws necessary before joint venture investments can be made?

We can see no reason to wait for the other laws that have been discussed, and foreign investors are already having detailed discussions about possible investments. We do expect that "supplementary regulations for administering the law on joint ventures" and "procedures for registration by joint venture enterprises" will be published in due time. Other relevant measures which are in various stages of preparation are "the law on customs tariff," "regulations on commodity inspection," "regulations on patent registration," "income taxation on joint ventures," "personal income taxation," "foreign exchange control regulations," "corporate law," and "insurance regulations." All these decrees, regulations, etc., will be published at a later date. In drafting them, the various government agencies are looking carefully at laws in other countries and we can assure our foreign friends that not only will these other laws be designed to meet China's needs, but they will take account of what is considered fair in international practice. Having adopted the joint venture law to promote foreign investment, it would be foolish of us to discourage it through some other law or regulation, for example a taxation law denying the foreigner a fair return on investment.

The joint venture law provides for a minimum 25 percent foreign investment, but no maximum: will there be a maximum?

There is no maximum. We are even discussing 100 percent foreign investment, which of course would not be a joint venture. If there is to be 100 percent foreign ownership, special regulations will be adopted. But a very high percentage of foreign ownership will be welcome according to the needs of a specific project.

Will the say of a foreigner in the management of the joint venture be proportional to its share in the capital?

Primarily, the board of directors of the joint venture will manage the business of the enterprise through consultation and cooperation. By consultation on vital problems the interests of both parties—the majority and the minority—will be looked after. Foreigners have told me that a prerequisite for a successful joint venture is mutual trust and understanding—with these elements, success will be assured, but without them, nothing can be done.

The joint venture law provides in Article 6 that, "The board of directors shall handle important questions which shall be discussed and decided by the joint venture parties based on the principle of equality and mutual benefit." Generally speaking, the board of directors should reach unanimous decisions through consultation. It can also be stipulated in the joint venture agreement or articles of incorporation that in case of failure to reach a unanimous decision on some important issue, other measures might be adopted.

Will the board of directors be organized according to the proportion of investment by each party?

There is no requirement in the joint venture law that the composition of the board of directors should be in proportion to investment: the composition should be agreed to by consultation between the parties and stipulated in the joint venture agreement and the articles of incorporation. The law does require that the chairman of the board should be appointed by the Chinese participant, which seems appropriate since China is the host country, but certainly one or two vice chairmen can be appointed by the foreign participant.

How will the officers of the joint venture be appointed?

The officers, and their authority and remuneration, etc., will be decided upon by the board of directors. The general manager may be either a foreigner or a Chinese, or by rotation. In some cases it will be good to have someone designated by the foreign participant as general manager, as we can learn new techniques from foreign managers.

Can you say something about the policy for workers in joint ventures?

The workers in a joint venture enterprise are to be chosen from among the best available by the local labor allocation department, and to be employed by the joint venture after examination. The management of the joint venture has the right to discharge those who turn out to be not qualified.

As to concrete standards of working conditions and worker performance, these should be determined by agreement between the parties and stipulated in the joint venture agreement and in accordance with the regulations and decrees issued by the labor department of the government.

As I have said before, actual wages for a joint venture enterprise's workers and staff can be at a higher level than other enterprises in the same locality. The wage level depends on the nature of the work performed. The system could be on a time or piecework basis or on the basis of a basic wage plus payment on a piece basis in the form of an over-quota bonus, etc. Accordingly, the wage system should be stipulated in the joint venture agreement according to specific needs.

Will the joint venture tax be levied on gross or net profit?

The tax will be levied on gross profit, which is sales and other income minus cost of production and depreciation. The net profit referred to in the law is gross profit minus taxes, reserves and expansion and welfare funds.

Does China have priorities for joint venture investment?

We are willing to discuss any serious proposal. At present, light industry and textiles will gain profits more quickly. But China has rich natural resources and some investors show great interest in our mining. China is a developing country and her standard of living is not high, yet she is "wealthy" in the sense of her riches still underground. We need to make full use of them and welcome outside investment to do it.

If a foreign investor wants to discuss a proposal, or find out about opportunities for investment in China, what should he do?

He should get in touch with us and we will help him. We will give him information and introduce him to the appropriate Chinese enterprises. We expect shortly to open an office in Hong Kong.

Rong Yiren: The Man to See about Joint Ventures

Rong Yiren is a dapper, graying, former capitalist from Shanghai, and he's the first man to contact if you are interested in joint ventures with China.

Known to some Chinese as "China's national capitalist," Rong hails from one of old China's most well-known industrial families, often called Yung according to the Shanghai pronunciation. Prominent in the Shanghai flour and textile industry in the forties, active in local and national politics in the fifties, and attacked during the hectic Cultural Revolution in the sixties, Rong Yiren has emerged in the late seventies as general manager of an important new organization—the China International Trust and Investment Corporation (CITIC). This entity, established on July 8, 1979, and directly answerable to China's highest government body, the State Council, is in charge of working out all the details of joint ventures with foreign firms.

Final authorization for all joint ventures must come from another new organization, the Foreign Investment Control Commission, headed by Vice Premier Gu Mu, and all joint ventures must then register with the newly resurrected General Administration for Industry and Commerce (see p. 9). But the initial contact and the nitty-gritty details must cross the desks of Rong and his staff of fewer than 100 at CITIC. They will then locate appropriate Chinese partners and help in the negotiations. As an investment advisor, CITIC will also be responsible for raising capital and will arrange for guarantees on venture capital projects. It will handle, in foreign currencies, investment in China by foreigners, overseas Chinese, and Chinese from Hong Kong, Macao, and even Taiwan.

Rong's actual power within CITIC is still uncertain. Clearly, since he is a capitalist with close relatives among overseas Chinese in Hong Kong and other countries, he was chosen to reassure foreign and overseas Chinese investors. Thus, some observers suspect that he may be a token spokesman for more powerful, behind-the-scenes government leaders; others believe his real powers will be greater.

Rong Yiren (Wade-Giles spelling: Jung I-jen; Shanghainese spelling: Yung Nyi-zung) is a vice chairman of the Chinese People's Political Consultative Conference, a member of the Standing Committee of the National People's Congress, board director of the Bank of China, and a vice chairman of the All-China Federation of Industry and Commerce. He has spent the last few months organizing CITIC, which he hopes will be in full operation by October 1. CITIC will be handling joint-venture negotiations that are already underway, and Rong has already met in Beijing and abroad with business people from many countries, including the US, Britain, West Germany, France, Japan, and Hong Kong. During his trip to the US in October, he will meet with American government officials and business leaders.

The first joint ventures, Rong says, will probably be in hotels, with other good opportunities in light industry, textiles, nonferrous metals, coal, and machine-building. CITIC may consider setting up offices in foreign countries and in Hong Kong once it is fully established.

The fledgling corporation has already received numerous inquiries about investing in China from foreign companies, the bulk of them West German, American, and Japanese as of early September. Some German firms even inquired about setting up wholly owned subsidiaries, but no such applications have been made, Rong said.

"Lively discussions" with Foreigners

Rong headed a delegation to West Germany, France, and Switzerland from April 11 to May 14 of this year in his capacity as a vice chairman of the China People's Political Consultative Conference (CPPCC), a national "united front" organization that gives nominal representation to various non-Communist political parties and to a variety of social groups. The first CPPCC delegation to travel abroad, the group consisted of experts in various fields and representatives from industrial and commercial circles in China.

They had "lively discussions" with foreign government officials, bankers, and business people involved in industry and mining about the development of economic cooperation and technical exchange and about China's economic readjustment and policies. The delegates also met with some other of their relatives and other overseas Chinese in Europe; Rong himself has relatives in Germany, as well as in Hong Kong, where his cousin runs a huge textile company.

Rong noted the importance of scientific research and training of personnel in Western Europe, the use of renovated and transformed equipment, and the Europeans' experience in enterprise management. On his return, Rong recommended that "China needs to set up a special body to handle foreign funds and equipment."

Rong Yiren gave a report about his trip at the fifth CPPCC National Committee's Standing Committee session on June 6. He also attended the concurrent meeting of the Standing Committee of the Fifth National People's Congress (NPC), of which he is a member of the presidium and the bills committee. The NPC is China's highest representative body, which endorses decisions taken by the State Council.

Rong Yiren was quoted several times in Chinese media in June and July as a participant in these meetings, explaining and expressing support for the draft joint-venture law. "I think it has answered some of the basic questions posed by our friends abroad in business circles," he said of the law.

Rong Yiren is perhaps the most prominent example of a major capitalist who has worked closely with the government to promote socialist construction. Rong Yiren's father and uncle rose from humble beginnings to become leading figures in the textile and flour industries in pre-1949 China. Their textile company, the Shen Xin (sometimes called Sung Sing) Cotton Mills, was founded in 1916 and grew to have nine mills in 1935, when it was the largest Chinese-owned textile corporation. Their two flour companies—Fu Xin (Foh Sing) and Mao Xin (Mow Sing)—grew to have over 20 mills.

In the late 1940s, Rong Yiren, a graduate of St. John's University in Shanghai, and his younger brother Rong Hongren began to shoulder much of the responsibility of the family businesses. Rong continued to work in managerial positions at the textile company and at one of the flour companies after the Communist victory in 1949.

During the 1950s, instead of fleeing abroad or to Hong Kong as many of his relatives and other capitalists did, Rong became very active in business circles and in local Shanghai government, rising to be a vice mayor in 1957. He was an early member and official of two organizations of businessmen that supported government policies: the China Democratic National Construction Association, and the All-China Federation of Industry and Commerce, of which he has been a vice chairman since 1952. In 1954 he became managing director of the government-run Bank of China, and from 1959 to 1966 he served as a vice minister of Textile Industry.

He was a member of all five National People's Congresses in 1954, 1958, 1964, 1975, and 1978, serving as a member of the standing committee of the fourth and fifth. He also was a member of the Second National Committee of the Chinese People's Political Consultative Conference (CPPCC), and a member of the Standing Committee of the third and fourth CPPCC National Committees.

Rong Yiren and his family were victims of bitter assaults during the Cultural Revolution and he was stripped of his positions of vice mayor and vice minister of Textile Industry. He re-emerged in January 1975 as a member of the Standing Committee of the Fourth National People's Congress, but did not attain further prominence until this year.

At CPPCC discussions, Rong said he found encouraging Vice Premier Deng Xiaoping's remarks that "most of the ablebodied capitalists in the country have been transformed into working people earning their own living."

Throughout the past 30 years, capitalists in China have been alternately criticized and co-opted, depending on the current interpretation of the meaning of class struggle. Under Maoist Communism, capitalists have a "dual nature"—partly exploitative, partly patriotic and cooperative.

After 1949, China's "national capitalists"—those not closely associated with the former Nationalist government—continued to run their factories and commercial enterprises, still living in the same fine houses. Although they were attacked in the "Five Anti" campaign in 1952, their enterprises were not confiscated. Rather, the capitalists were "persuaded" to form joint state-private enterprises; the Rongs' textile company was one of the first to do so in 1954, and almost all private enterprises had joined with the state by 1956. The government assessed the capitalists' holdings and paid them fixed interest on their assets until September 1966. They were allowed to continue on as salaried managers, although with little decision-making power. Later, all enterprises became state run.

The capitalists were attacked harshly during the Anti-Rightist campaign of 1957 and also during the Cultural Revolution of the late 1960s, when many of their privileges were taken away. Since the end of last year, though, the Chinese government has restored their salaries, returned their bank savings and their confiscated property, and paid back the deducted salary and fixed interest owed to them prior to September 1966. Chairman Hua recently declared that capitalists no longer exist as a class in China, and Deng's statement that they are now working people reiterated this.

Responding to Deng's explicit statement of this policy, Rong spoke for China's former capitalists when he said in June, "Working in the industrial and commercial fields for many years, we have accumulated a certain amount of experience, knowledge, and special skills. It is our greatest glory to contribute our lifelong energies and valuable things to our country's socialist construction."

When the joint-venture law came into effect on July 8, Rong Yiren, Lei Renmin, and Wu Zhichao were listed as in charge of preparatory work for CITIC, and by July 20 the same three had been chosen to be in charge of the corporation.

Although he has been given little prominence in connection with CITIC, Lei Renmin has a long and distinguished career in the foreign trade ministry. It is possible that he will have greater leverage in CITIC than Rong.

Lei served as a vice minister of foreign trade from the time the ministry was founded in 1952 until the turmoil of the late 1960s. His most notable achievements during those years were in 1954, when he served as advisor to Premier Zhou Enlai (Chou En-lai) at the Geneva Conference, and in 1955, when he headed one of the first PRC trade delegations to Japan and signed a trade agreement later that year.

In 1964, acting in his position as vice chairman of the China Council for the Promotion of International Trade (CCPIT), he signed an agreement establishing "non-official" trade relations with Italy. Less than two years later, he was branded a "big renegade and a counterrevolutionary revisionist" and disappeared from public life.

No information was available in Washington on Wu Zhichao's background, and it is not clear what the division of responsibility will be among the three. —DJ 宪

RONG'S US VISIT

Rong Yiren and four other representatives of the China International Trust and Investment Corporation will visit the US from October 6 to November 2. Their hosts will be the National Council for US-China Trade, the World Affairs Council of Cleveland, and the First National Bank of Chicago.

Accompanying him will be his wife, Yang Jianqing, a member of the National Committee of the CPPCC; two advisors, Cao Baozhen and Lei Pingyi, the latter being a deputy manager of the business department of CITIC; and a secretary/interpreter.

China's New Financial, Economic Organizations

The proliferation of newly established organizations relating to foreign trade and investment in China is confusing to many US business people, and the National Council is no exception. The following information contains the official Chinese explanation of the purpose of five new economic entities.

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1. Financial and Economic Commission. Approved on July 1 and answerable to the State Council, this commission consists of all China's top economic and financial leaders, and it is designed "to strengthen unified leadership over financial and economic work." Headed by newly returned Vice Premier Chen Yun, the commission has recently been "organizing comrades engaged in theoretical and practical work to study the question of restructuring the economic system and economic structure." Chairman: Vice Premier Chen Yun, predominant economic expert in China in the early 1950s; Vice Chairman: Vice Premier Li Xiannian; Secretary-General: Vice Premier Yao Yilin, former Minister of Commerce and Director of the Finance and Trade Political Department; the members are:

Yu Qiuli, Director of State Planning Commission;

Wang Zhen, former Minister of State Farms and Land Reclamation in the 1950s and 1960s;

Fang Yi, Director of State Scientific and Technological Commission;

Gu Mu, Director of State Capital Construction Commission and two other new entities (see below);

Bo Yibo, newly appointed Vice Premier, formerly head of the State Capital Construction Commission, Chairman of the State Economic Commission, and Vice Chairman of the State Planning Commission in the 1950s and 1960s;

Wang Renzhong, Director of State Agricultural Commission;

Chen Guodong, Minister of Food;

Kang Shi'en, Director of State Economic Commission;

Zhang Jingfu, former Minister of Finance;

Jin Ming, a Vice Minister of Finance during the 1950s under Deng Xiaoping and Li Xiannian, later transferred to the Party's Central-South Bureau in the 1960s.

2. Foreign Investment Control Commission was established by the Standing Committee of the National People's Congress on July 30, with Vice Premier Gu Mu as its chairman. It has sole and absolute authority to approve foreign investments in China, including joint ventures, 100 percent foreign-owned investments, and some compensation trade projects, according to one report. The joint-venture law, put into effect July 9, specifies, in Article 3, that all joint ventures must apply to this commission for authorization of agreements, contracts, and articles of association. The commission must authorize or reject these documents within three months before the joint venture can begin operations. Joint ventures also need the authorization of this commission if they wish to terminate their contract before the date of expiration.

Americans recently returning from Beijing have reported that most of the work of this commission will be carried out by its vice chairman, Wang Daohan. Wang is a vice minister of Economic Relations with Foreign Countries and was a specialist in technological affairs in the 1950s.

3. Import-Export Control Commission was established on the same date, July 30, also with Gu Mu in charge. Its purpose is "to supervise imports and exports, in order to strengthen the management of imports and exports, keep foreign exchange in balance, and introduce the most up-to-date foreign technologies," according to *Beijing Review*. The real function of this commission remains somewhat of a mystery, but it is possible that with compensation trade, barter, and other forms of trade that do not use foreign exchange, an overall commission was needed to oversee the flow of goods in and out of China.

4. China International Trust and Investment Corporation (CITIC) will probably be most closely involved with foreign companies in the negotiation of joint ventures. Approved on July 8 by the State Council, it is headed by veteran Shanghai industrialist Rong Yiren, Lei Renmin, and Wu Zhichao. (See article on Rong Yiren.)

According to *Beijing Review* of July 20, CITIC is "a business organization that would coordinate use of foreign investment and technology." According to the New China News Agency (Xinhua) report of July 9, CITIC's purpose is "to utilize foreign investment and introduce advanced techniques, technology, and equipment needed for the socialist modernization of China." It is in charge of working out the details of joint ventures with foreigners and finding appropriate Chinese partners.

The office address of CITIC is:

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5. General Administration for Industry and Commerce appears to be a resurrection of the Central Bureau (or Administration) of Industry and Commerce, which operated from 1954 to 1966. According to the joint-venture law, once a joint venture has been authorized, it is required to register with this administration before it "starts operations under license." The administration will then issue a Certificate of Incorporation. It is not known who heads this organization.

6. State General Administration of Exchange Control was established in April to supervise the Bank of China's activities. It is responsible for "drafting decrees to unify China's foreign-exchange control, examining and supervising the commercial and non-commercial foreign-exchange balance of payments." (See *CBR 6:3*, pp. 56-7, for more details.) —DJ 㐂

Trade

A Guide to Barter in the China Trade

According to Webster's New World Dictionary, the definition of barter is "to trade by exchanging goods or services without using money." Usually, barter involves two-way trade of commodities using a single contract, as opposed to countertrade in which goods may be exchanged for technology under separate contracts. The idea of barter is of increasing interest to American companies involved in doing business with China, but details are scarce of how—and if—such arrangements can be made. With China itself pressing foreign companies to find ways of exchanging product for product, barter may be ready to play a role in the PRC's international trade. The following article by Nicholas Ludlow may suggest new ideas to US firms involved in the China business.

Traditionally, Beijing has steered clear of pure barter contracts, saying they are too complicated to arrange. And while single US companies have negotiated exchange of commodities at the same time, the best-known examples are not barter in the strict sense, nor even countertrade.

Union Oil, in 1977, bought petroleum coke from MINMETALS and sold urea to SINOCHEM. These were one-time deals negotiated separately by a single Union Oil team. Urea sales have occurred repeatedly since, but not more petroleum coke purchases.

Some US companies have had arrangements since as early as 1973, linking sale of textile machinery to textile goods. But these have been as parallel contracts.

Hercules, Inc., negotiated two deals simultaneously during a single China visit. The man who negotiated the deals met with Chinese FTCs in his hotel room in June 1977. In the contracts signed, Hercules sold $400,000 worth of polypropylene to SINOCHEM, and bought roughly the same value of gum rosin from CHINATUHSU (Native Produce and Animal By-Products Import and Export Corporation). There was no direct reciprocity involved in the two deals, although the two Chinese corporations were aware of each other's contracts.

Hercules had the impression that the Chinese did not care to establish a precedent.

But, between 1966 and 1969, China established at least seven such precedents in its barter agreements with Pakistan. These involved China selling coal, rice, cement, and tea in exchange for Pakistan's jute, cotton, cotton yarn, jute bags, or wheat. Each was signed by a Chinese government commercial official stationed in Islamabad or, in one case, a representative of China's Ministry of Foreign Trade, with the Pakistan government.

The Chinese foreign trade corporation mentioned in these barter contracts is always the seller: for example, the Metals and Minerals Corporation (MINMETALS) for the coal and cement; Cereals, Oils, and Foodstuffs Corporation (CEROILS) for the rice; and the Tea and Native Produce Corporation, as it was known then (now CHINATUHSU), for the tea.

A typical arrangement had a specified tonnage of, say, Chinese long-shaped rice, five percent plus or minus at the seller's option, f.o.b. Shanghai or Huangpu, exchanged at a given amount per ton expressed in sterling, for Pakistani jute from the following year's crop to the same total amount. The terms of the jute contracts and prices were to be "negotiated separately between the [Chinese] and the Pakistani jute exporters themselves." The jute was not to be reexported by China.

Immediately on signing the barter agreement, under the agreement terms, Pakistan opened a confirmed, irrevocable, divisible and assignable L/C with the Bank of China in Beijing for the full value of the agreement, in sterling, in favor of China's CEROILS FTC.

Later, when the Chinese bought jute or other commodities from Karachi, a rupee account was opened at the Bank of China in Karachi for transactions connected with the agreement, through which L/Cs were opened in favor of Pakistani exporters. The agreement had a parity clause giving a pound-rupee conversion rate, with a provision for adjustment in case the rate changed.

In case the value of rice supplied by the PRC did not correspond to the value of the jute after completion of the full deliveries under the contract, and a small balance was left in the rupee account, both parties agreed to settle the balance in sterling.

In all cases only one commodity is specified on the Chinese side, but the Pakistan exchanges of goods are in some cases split 50/50 or 60/25/15, or as three "alternative" commodities.

COMMODITY EXCHANGE AGREEMENTS

Commodity exchange agreements, a looser form of barter contracts, have been signed by Beijing with many Asian, African, and Latin American countries. These too may suggest potential ways of arranging business with the PRC.

In some cases these agreements are de facto barter arrangements, specifying 100 percent exchange for given products, such as Sri Lanka's rubber in return for China's rice up to the same value (under schedules A1 and A2) but also specifying an additional list of commodities (B1 and B2) which each side will endeavor to export to the other to a total approximate given value.

Schedules A1 and A2 of Sri Lanka's 1973 agreement with China, for example, were as follows:

Schedule "A1"

Commodities which Sri Lanka undertakes to export to China and China undertakes to import from Sri Lanka.

Name of Commodity	Quantity	Approximate Value
Rubber	29,000 metric tons Ribbed Smoked Sheet No. 1	
	17,000 metric tons Ribbed Smoked Sheet No. 2	
	11,000 metric tons Ribbed Smoked Sheet No. 3	Rs 157,600,000.00

Schedule "A2"

Commodities which China undertakes to export to Sri Lanka and Sri Lanka undertakes to import from China.

Name of Commodity	Quantity	Approximate Value
Rice	200,000 metric tons	Rs 157,600,00.00

The China-Sri Lanka Protocol for 1971 provided for the supply to the PRC of 41,000 metric tons of rubber valued at Rs 100 million. In fact, 46,740 metric tons were shipped under contracts signed under the protocol plus some spillover from the previous year's arrangement. Under the 1971 protocol, 200,000 metric tons of rice, valued at Rs 100 million, were to be supplied by China to Sri Lanka. This quantity was actually imported at a value of Rs 95.4 million.

Under Schedules B1 and B2, lists of commodities which the two countries would "endeavor to" exchange were given with only a sum value included (Rs 60 million) of the intended exchanges. The list of 26 commodities Sri Lanka would try to export to China was as follows:

Rubber, coconut oil, copra, coir fiber and coir products, desiccated coconut, tea, cocoa and cocoa products, cardamom, cinnamon, citronella oil, pepper, tobacco, seeds and other planting materials, industrial products, ilmenite, handicrafts, precious and semiprecious stones, films, indigenous medical herbs, hides, tea and rubber machinery, dyes, nutmeg, rutile, timber, and "others."

The 14 categories which China was to "endeavor to export" to Sri Lanka and Sri Lanka was to "endeavor to import" from China, apparently divided into groups corresponding with China's foreign trade corporations, were:

Rice; beans, oilseeds, and oils; canned goods, dried chilies, onions, potatoes, garlic, dried fish, frozen beef and mutton, dairy products, sugar, egg products and other foodstuffs; cotton piece goods, cotton yarn, cotton knitted goods, silk and artificial silk piece goods; tires and tubes, rubber manufactures; chemicals, dyestuffs, pigments; pharmaceuticals, medical apparatus and equipment; steel, cement, coal; paper, cultural supplies, bicycles, sewing machines, plywood, tea chests, roofing felts, leather products, thermos flasks, window glass and glassware, domestic electric appliances and others; machinery, scientific instruments; handicrafts; films; seeds and other planting materials; and "others."

OTHER TRADE AND PAYMENT OPTIONS

In another similar arrangement typified by a protocol between the kingdom of Morocco and the PRC, the commodities to be exchanged are listed in terms of specific amounts, values, and ministries concerned for each product. Conceivably, if and when China establishes an organization capable of handling the two-way transactions it is presently so enthusiastic about, a modified version of such an agreement might be possible between a company and the PRC. (See the accompanying box.)

Yet another option is suggested by the payments mechanism of the Sino-Soviet trade and payments agreement. The text of that agreement, signed on May 14, 1974, is as follows:

1. The trade and exchange of goods in 1974 will be in accordance with the list of goods attached.
2. The exchange of goods will be on the basis of contracts concluded between foreign trade organizations in the respective countries.
3. In the trade between the two countries, prices will be those already existing between the two countries. If products are new, the price will be set by consultations between the organizations of the two countries on the basis of international market prices. Both sides will use Swiss francs.
4. Payments for the goods delivered under the agreement will be made on the Soviet side through the Soviet Bank of Foreign Trade and on the Chinese side through the Bank of China, according to special accounts of 1974 in Swiss francs. If "The Sildo" (unused portion) is more than 51 million Swiss francs, then two percent per annum interest will be charged to either side.
5. This agreement is effective to the end of 1974.

THE PRACTICAL OPERATION OF BARTER

Barter presumably comes under the purview of the Export Bureau of the Ministry of Foreign Trade, which administers China's compensation trade (see *CBR* 6:4, p. 79). But no single organization has been established to handle the PRC's two-way trade, as it has in other nonmarket countries, despite Beijing's assurances, since at least September 1978, that such an agency has been under consideration, nor have any regulations been issued for cooperation trade. The newly formed Export-Import Commission may handle compensation trade—and barter—in the future.

All compensation arrangements must now be arranged with the exporting entity; e.g., CHINATEX, with the machinery importer (MACHIMPEX or TECHIMPORT) acting in a secondary role.

As major arrangements are discussed, such as nonferrous complexes in which the power investment is supplied by the Ministry of Power but the output is handled by the Ministry of Metallurgical Industries, the need is now urgent for China to establish an authoritative central agency to facilitate and implement such agreements and arrange interlocking financial repayment guarantees.

The more "coal machinery for coal" and similar ideas are encouraged by the Chinese, the greater the need for serious development of a structure on the Chinese side to handle such deals. As this article shows, China has done such things in the past and they have worked. They can do so in the future. 完

TRADE AGREEMENT BETWEEN THE KINGDOM OF MOROCCO AND THE PEOPLE'S REPUBLIC OF CHINA

The Protocol supplementing the Commercial Accord of March 30, 1963, between the kingdom of Morocco and the People's Republic of China, signed in Rabat on May 20, 1966, has been extended for one year.

Valid from March 30, 1967, to March 29, 1968.

LIST "A"

Moroccan Exports to China (in thousands of dirhams)

1.	Phosphates	600,000 tons	(33,000)
2.	Triple superphosphates		P.M.
3.	Hyperphosphates		P.M.
4.	Nonferrous metals	4,000 tons	(2,880)
5.	Copper	2,500 tons	(3,600)
6.	Zinc (carbon)	10,000 tons	(2,320)
7.	Cork		100
8.	Cotton	3,500 tons	(14,000)
9.	Wool, washed	500 tons	(3,900)
10.	Nonmilitary vehicles and components	500 units	(14,000)
11.	Handicraft articles		200
12.	Nonstaple grains		P.M.
13.	Rice		P.M.
14.	Miscellaneous		3,000
		TOTAL	77,000

N.B. Values given in parentheses are estimated.

LIST B

Chinese Exports to Morocco (in thousands of dirhams)

Product Category	Quotas	Ministry in Charge
1. Tea 8,000 tons	48,130	O.N.T.S.
2. Cotton textiles and staple fibers 1,000 tons	(5,000)	Commerce
3. Wool fabrics 20 tons	(500)	Commerce
4. Silk fabrics and silk goods	1,500	Commerce
5. Miscellaneous textile goods: hosiery, apparel, and embroidery approved for import to Morocco	600	Commerce
6. Cotton thread	1,530	Industry
7. Handicraft products and carpets	500	Commerce
8. Equipment and machinery including agricultural implements	2,000	Commerce
9. Steel products	3,500	Commerce
10. Sodium sulfate and chemical products	400	Commerce
11. Sewing machines (6,000 units)	(600)	Commerce
12. Bicycle components	250	Commerce
13. Hand tools; agricultural implements and hardware	250	Commerce
14. Ceramic tiles and sanitary articles	270	Commerce
15. Toys	200	Commerce
16. Batteries less than 10 volts, flashlights, electric light bulbs, and miscellaneous electrical appliances	1,000	Commerce
17. Vacuum flasks	300	Commerce
18. Gas lights, storm lamps, and components	750	Commerce
19. Timepieces excluding local manufactures	120	Commerce
20. Cutlery and metal light-industry products	200	Commerce
21. Radios and radio components	300	Commerce
22. Surgical dressings	1,500	Public Health
23. Rubber products including tires, except products of local manufacture	500	Commerce
24. Porcelain and ceramics	1,000	Commerce
25. Preserved foodstuffs 5,000 cases	(300)	Commerce
26. Coffee 500 tons	(2,000)	Commerce
27. Cocoa powder	200	Commerce
28. Galingale and ginger	100	Commerce
29. Cinnamon	500	Commerce
30. Miscellaneous	3,000	Commerce
TOTAL	77,000	

N.B. Values given in parentheses are estimated.

CONTRACT
BETWEEN THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA AND THE GOVERNMENT OF PAKISTAN FOR BARTER OF CEMENT AGAINST COTTON, COTTON YARN, AND JUTE BAGS.

The Government of the People's Republic of China (hereinafter called the Seller), as the one Party, undertakes to sell and the Government of Pakistan (hereinafter called the Buyer), as the other Party, undertakes to purchase 160,000 (one hundred and sixty thousand) long tons of Portland Cement on the following terms and conditions:

1. **Specifications:** The goods shall conform to B.S.S. 12/1958 amended to date for Ordinary Portland Cement.

2. **Packing:** Cement will be packed in 6-ply kraft paper bags, sea- and rail-worthy, weighing 45 or 50 kilos net per bag and with 3 percent spare empty 3-ply kraft paper bags free of charge. The cement will be consigned to the Director of Supply, Dacca, East Pakistan.

3. **Quantity:** 160,000 (one hundred and sixty thousand) long tons, 5 percent more or less at Seller's option.

4. **Port of Shipment:** Shipment will be effected from Shanghai or Dairen at Seller's option.

5. **Delivery Schedule:** Delivery will be made as follows:

November/December	1969	20,000 long tons
December	1969	30,000 long tons
January	1970	30,000 long tons
February	1970	30,000 long tons
March	1970	30,000 long tons
April	1970	20,000 long tons

Any change in the above schedules, if necessary, may be effected by mutual consent.

The shipment of cement will start from November 1969 after the Seller having received the L/C for the full f.o.b. value of contracted cement of 160,000 long tons to be opened by the Buyer and shall be completed by the end of April 1970.

The Seller agrees that they will cable the Buyer 20 (twenty) days before each month of delivery, giving the period within which they are ready to take ships sent by the Buyer, the availability of cement, and the name of port where the Buyer's ship shall call for loading. The Buyer shall also cable the branch office at the port designated by the Seller 10 (ten) days at least before each month of delivery, giving the name of the ship, the quantity of cement to be loaded, and the approximate date of her expected arrival at the loading port in order that the Seller can make preparation for the loading.

The Buyer or his nominee agrees to appoint at the usual fee the China Ocean Shipping Agency, cable address: PENAVICO, as the agent for all his steamers and shall inform the said Agency of the particulars of every ship (including the exact date of her arrival at the loading port, the ship's name, the captain's nationality, the number and nationalities of the crew, the ship's calling, wavelength, length, draught, etc.), 10 (ten) days before the exact date of her expected arrival at the loading port. In case the Buyer's ships fail to reach the loading port within the stipulated period in every month of delivery given by the Seller, all the losses including storing charges, insurance fees, leakage, and deterioration in quality, etc., sustained therefrom at the loading port by the Seller, shall be for account of the Buyer, except due to force majeure.

The Buyer shall send ships strictly according to the delivery schedule laid down in this contract. Every ship shall have option to load 5 percent (five percent only) more or less cement at the loading port.

Notice of Readiness of loading shall be submitted to the branch office of the Seller at the port within the office hours immediately after the steamer arrives at the loading port and being ready for shipment. The counting of the loading time shall start 24 hours after receipt of the Notice of Readiness. Rate of loading will be 1,000 (one thousand) long tons per weather working day (based on five hatches. In case the vessel chartered possesses less than five hatches, the loading rate will be reduced proportionately), Sundays and holidays excepted. Any demurrage or despatch money to steamers at the loading port will be to the Seller's account according to the following rates:

Demurrage pence 10 (ten) per long ton per weather working day.
Despatch money at half rate of rate of demurrage and fractions pro rata.

Any such demurrage and/or despatch money at the above-mentioned rates should be settled directly between the National Shipping Corporation, Karachi (or a shipping agency nominated by the Buyer in consultation with the Seller), and the China Ocean Shipping Agency (or the latter's branch office at the port of loading within one month of the ship's departure from the port of loading.

The Buyer agrees not to charter or hire any ship from the United States, Israel, South Vietnam, South Korea, and South Africa and guarantees that no captain or crew or any other persons on board any ship entering the port of loading will be of nationality of the above-mentioned nations.

6. **Price:** English Shilling 78/3d (Shilling seventy-eight and pence three only) per long ton net

CONTRACT
BETWEEN THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA AND THE GOVERNMENT OF PAKISTAN
(Continued)

f.o.b. Chinese port (stevedorage and stowage included, and also lighterage, if necessary, but berthage, wharfage, and pilotage, and any other fees or expenses caused to the steamers at port of loading are understood to be for the Buyer's account).

At present, the parity rate between the Pound Sterling and Pakistani Rupee is at 1:11.428564 and one Pakistani Rupee equals 0.186621 grams of fine gold. In case of any change in the parity rate of Pound Sterling the above-mentioned price in respect of undelivered quantity of cement shall be adjusted in proportion to the change that has occurred, so that the original gold equivalance of the price shall remain unchanged.

7. **Purchase of Pakistani Goods:** The Seller will utilize 60 percent of the full f.o.b. value of 160,000 long tons of cement at Sh. 78/3d (Shilling seventy-eight and pence three only) per long ton for the purchase of Pakistan cotton of 1969-70 crops, and 15 percent of the full f.o.b. value for the purchase of Pakistani cotton yarn and the balance of 25 percent for the purchase of Pakistani jute bags. The return purchase shall be completed before the end of October 1970. The concrete terms and conditions of the contracts and their prices, etc., will be negotiated separately between the Seller and the Pakistani exporters themselves. These above-mentioned Pakistani goods exported to China under the contracts are intended for consumption in that country and shall not be reexported.

8. **Payment:** After signing this contract, the Buyer shall immediately open by cable through the Bank of China in Karachi, with the Bank of China in Beijing, a confirmed, irrevocable, divisible, and assignable Letter of Credit in Pound Sterling for the full f.o.b. value of 160,000 long tons of cement at Sh 78/3d (Shilling seventy-eight and pence three only) per long ton at a total cost of £626,000 (i.e., total Pound Sterling six hundred twenty-six thousand only). Stipulating the clause "5 percent more or less allowed," "partial shipment allowed," but not stipulating concrete monthly shipment in L/C in favor of the China National Metals & Minerals Import and Export Corporation, Er Ligou, Xi Jiao, Beijing, China and/or their branches." The concrete arrangements will be made as mentioned in terms (1), (2), and (3) below. When the Seller buys cotton, cotton yarn, and jute bags from the Pakistani exporters, Letters of Credit will be opened in their favor through the Bank of China in Karachi. Both the Seller and the Buyer agree that a Rupee Account will be opened in the Bank of China in Karachi in the name of "Government of the People's Republic of China" for all transactions connected with the above-mentioned Letters of Credit.

In case of any change in the official parity rate of Pakistani rupee (at present 1 Pakistani rupee equals 0.186621 grams of fine gold) during the currency of the contract the balance existing in the aforesaid account on the close of business on the last working day preceding the day on which the change has taken place shall be adjusted by the Bank of China in proportion to the change which has occurred. This adjustment will be done after taking into consideration the documents accepted by the banks for payment and en route.

The following will be the detailed arrangements:

(1) Payment against Letter of Credit for shipments of cement will be credited to the above Rupee Account by the Bank of China under advice to the State Bank of Pakistan in Karachi which will afford corresponding credit in the former's account maintained with the latter.

(2) Payment for cotton, cotton yarn, and jute bags on f.o.b. (STOWED) basis against Letters of Credit for cotton, cotton yarn, and jute bags shipment will be debited to the above Rupee Account by the Bank of China. In the event of inadequacy of balance in the account to meet such payments, the Bank of China, Karachi, and/or the Bank of China, Chittagong will draw on the State Bank of Pakistan, Karachi, as and when necessary amounts for credit of the Rupee Account. Such drawings will be treated as advance payment for shipment of cement without any interest.

(3) In case the value of cement supplied does not correspond to the amount paid for cotton, cotton yarn, and jute bags due to the over-delivery or under-delivery of cement, the balance would be settled in a manner as may be agreed by the two contracting parties except that if a small balance not exceeding Rs 1,000 (Rupees one thousand) remains unadjusted the amount shall be settled by the debtor country by remittance in Pound Sterling.

9. **Inspection and Testing:** The Inspection Certificate of Quality and Weight issued before shipment by the China Commodity Inspection Bureau at the Loading port shall be taken as the basis for negotiating the payment. The Buyer may

CONTRACT
BETWEEN THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA AND THE GOVERNMENT OF PAKISTAN
(Continued)

carry out reinspection after the goods have arrived at destination. In case the quality and/or weight of the goods are found by reinspection to be not in conformity with the stipulation and that is not attributable to natural causes and not within the responsibility of the shipping company, and/or the insurance company, the Buyer shall notify the Seller within 30 days after the arrival of the goods at destination, and the Buyer and Seller will settle the matter by mutual agreement or as provided in Clause-13 Arbitration.

10. **Distribution of Documents:** A set of shipping documents, which comprises: (a) Signed Bill of Lading by the Seller, (b) Seller's signed invoice and (c) Inspection Certificate of Quality and Weight issued by the China Commodity Inspection Bureau shall be handed over by the Seller to the Bank of China (or its branch office at the port of loading) for payment. A set of the copies of these shipping documents shall be airmailed to the Buyer by the Seller.

11. **Insurance:** Insurance, if required, shall be arranged by the Buyer at his own cost.

12. **Force Majeure:** If by reason of fire, flood, war blockade, or any other recognized force majeure circumstances, shipment of the goods is delayed, whether wholly or partly, the Seller shall be entitled to suspend or postpone the delivery of the whole or part of the contracted goods without liability for any indemnity. In case these circumstances last longer than two months from the date of delivery stipulated under this contract, the Seller shall be entitled to cancel the contract as a whole or nonaccepted part, in which case there shall be no claim for damages. The Seller shall notify the Buyer of the circumstances as early as possible. If in similar circumstances, the Buyer is prevented from accepting the goods, whether wholly or partly, he shall be entitled to suspend the contract, either wholly or partly, without any liability for indemnity. In case these circumstances last longer than two months from the date of occurrence, the Buyer shall be entitled to cancel the contract, either wholly or in part, without any claim for damages. The Buyer shall notify the Seller of the circumstances as early as possible.

13. **Arbitration:** In case of dispute between the Buyer and the Seller in respect of this contract, both the Buyer and the Seller shall first endeavor to settle the same by mutual negotiations. If such negotiations fail, the matter may be referred to arbitration and an arbitrator shall be appointed by both parties with mutual consent. If, however, both the Buyer and the Seller cannot agree to the appointment of a single arbitrator between themselves, the Buyer and the Seller may then appoint their own arbitrator respectively and the arbitrators shall mutually appoint an umpire. Any awards of the arbitrators or the umpire in respect of any dispute, including the decision as the party adjudged to be responsible for the payment of arbitrations expenses, shall be deemed as final and binding on both the Buyer and the Seller, who shall have no right to appeal as agreed. The arbitrator (s) or umpire shall be a citizen either of the People's Republic of China or of Pakistan. The place of arbitration shall be agreed mutually.

14. **Collections and Dues:** All collections, duties, and taxes levied on the territory of China will be paid by the Seller. All collections and duties levied on the territory of Pakistan will be paid by the Buyer.

15. **Amendments:** Any amendments or additions to this contract shall be valid only if made in writing and signed by both parties or their authorized representatives.

16. **Authorities for the Implementation of the Contract:** The Authorities for the implementation of this contract so far as cement is concerned on the part of the Government of the People's Republic of China shall be the China National Metals & Minerals Import & Export Corporation (address: Er Ligou, Xi Jiao, Beijing, China, cable: MINMETALS BEIJING); and on the part of Government of Pakistan, Director of Supply of the East Pakistan Government, Dacca (cable: SUPPLY, DACCA).

Done at Islamabad on the Sixth day of November in the year nineteen hundred and sixty-nine, in duplicate, one each for the Buyer and the Seller.

On behalf of the Government of the People's Republic of China. Sd/Rong Fengxiang Commercial Attache, Republic of China in Pakistan.	On behalf of the Government of Pakistan. Sd/M. Mohsin Deputy Secretary to the Government of Pakistan, Ministry of Commerce.

The Way Ahead

US-China Trade Agreement

Eleventh-Hour Switch

American exporters may soon, at last, have the full range of export incentives, including Exim Bank credits, OPIC, and reimbursable US government aid to assist them in their sales to China. By the end of 1980 US firms should be fully competitive in the China market.

In his speech to Beijing University on August 27, Vice President Walter F. Mondale announced four new economic commitments to China by the Carter administration.

He promised:

- *to submit the US-China trade agreement to Congress before the end of the year, and not to link its submission to any other issue;*
- *to sign an agreement on development of hydroelectric energy so that US government agencies can help China develop its hydropower potential on a compensatory basis;*
- *to be prepared to establish Exim Bank credits of up to $2 billion over five years, on a case-by-case basis;*
- *to seek Congressional authority this year to provide US investors in China with the guarantees and insurance of the Overseas Private Investment Corporation (OPIC).*

Mondale also promised that the US government would work with the Chinese to conclude textile, maritime, and civil aviation agreements "in the shortest possible time."

Each of these promises has underlying implications. The following four articles analyze each of these in detail.

Throughout the month of July, Administration officials predicted that the US-China trade agreement, signed July 7, would be submitted to Congress before August recess.

At the eleventh hour, it wasn't. The Chinese, naturally, were disturbed. So were US executives interested in trading with China. In August, Vice President Mondale promised the Chinese that the agreement would be submitted this year. But he still left people wondering: why the last-minute switch?

Two factors apparently influenced Carter not to submit the China trade agreement just yet. The most important was that Congress just wasn't ready for it. In particular, Senate Majority Leader Robert C. Byrd, who supports the trade accord bill, told the Administration that the Congress would be too busy with other important legislation, such as SALT II and Carter's energy program, to consider such a potentially controversial trade agreement just yet. The law required that both houses of Congress vote on it within 60 legislative days (about three to four months) and it must pass through two of the busiest committees on the Hill. So Byrd and others preferred to see it delayed until more pressing legislation was well on the road.

This could mean that the trade agreement will not be submitted till November or December, with the year-end recess slowing its passage even further. As a result, most-favored-nation (MFN) tariff treatment and Exim Bank credits—which are provided for in the trade agreement—may not be available for China until February or March 1980.

A second consideration, played down by the US government, is the "Soviet connection." Although the Administration, probably led by National Security Advisor Zbigniew Brzezinski, was willing to submit the China trade agreement and handle a Soviet trade accord separately, several Congressional leaders felt more strongly about the importance of being "evenhanded" in treatment of the Soviet Union and China. For one, Congressman Charles Vanik, chairman of the Subcommittee on Trade of the House Ways and Means Committee, strongly supports trade agreements for both China and the Soviet Union. Senator Henry Jackson, who visited China shortly before Mondale, prefers to push ahead with the China agreement regardless of Soviet sensitivities.

While in China, Jackson announced that the Chinese were "very unhappy" that the trade agreement had not been submitted as scheduled. In his speech to Beijing University, broadcast all over China, Mondale promised that Carter would submit the trade agreement this year. "And its submission is not linked to any other issue," he continued. That is to say, the China trade agreement will go to Congress regardless of delays on the Soviet trade agreement, now likely to be protracted.

The Soviets, so far, have refused to provide satisfactory assurances that they will continue liberal emigration practices. Chinese Vice Premier Deng Xiaoping in January assured Senator Jackson about continued Chinese emigration, and apparently the US Administration is satisfied with whatever assurances on emigration the Chinese have provided. When the president submits the trade agreement to Congress, he must also declare a waiver of the Jackson-Vanik amendment for China, stating that the PRC has assured him that it is allowing freer emigration.

Other accomplishments of Mondale's visit include:

- three discussions with Vice Premier Deng and one with Premier Hua Guofeng;
- signing of a protocol on hydroelectric power and related water resource management (see following story);
- signing of an agreement on cultural exchange of film festivals, dance troupes, art exhibitions, language instructors, athletes, and specialists in radio broadcasting and libraries;
- opening of the US consulate in Guangzhou (Canton). For the time being, offices will be in the Dongfang (Tung Fang) Hotel; State Department official Richard Williams is the new US consul general in Guangzhou, temporarily aided by Tom Biddick and Mike Frandock.

During his visit to the US October 23–31, Chinese Foreign Trade Minister Li Qiang will talk with US government officials and representatives from private industry. Arriving from Canada, he will visit Washington, Cleveland, Cape Canaveral, San Francisco, Chicago and, briefly, New York, before flying to Paris. —DJ 美

Credit: Bob McNeely

Vice President Mondale and Vice Premier Deng Xiaoping sign hydropower and cultural accord August 28, 1979, bringing the total number of formal agreements to twelve.

Exports

US Aid to China

How to Obtain It

The protocol on hydroelectric power and water resource management signed by Vice President Mondale in Beijing on August 28 may ultimately lead US companies to lucrative engineering and construction contracts for several large Chinese hydro projects. But of even greater significance, its signing signals the releasing for China of a flock of potential projects by US federal agencies in fields as diverse as public health, mine development, ports, aviation, and environmental protection. In almost all these fields, US companies stand to benefit, either by contracting with US government agencies or by picking up in China where a government agency leaves off.

In essence, the signing of the hydro accord would not have been possible without a determination by the State Department and the Agency for International Development (AID) that the PRC is a "friendly country." This determination was an internal bureaucratic procedure—not a formal legal document—involving a memo passed from State to AID in August before Mondale's trip. But, subtle and behind-the-scenes as it was, the determination enables China to benefit from almost all kinds of reimbursable assistance offered by US federal agencies.

"Reimbursable" is the key word. China, after getting as much free advice and technical training as possible, will have to pay for any services the US government offers—including, in the case of the hydro agreement:

- provision of information;
- research and development activities;
- technical training of Chinese in the US;
- such services as planning and project design, consultation, and construction management;
- other forms of "cooperation," such as help in procurement of equipment and materials (presumably from American companies).

Within the US government, four agencies provide these types of services for hydro projects: the Department of Energy (and its Bonneville Power Administration), the Bureau of Reclamation of the Department of Interior, the Army Corps of Engineers, and the Tennessee Valley Authority. Members of these groups discussed training and advisory projects during former Secretary of Energy James Schlesinger's trip to China last November and during Vice Premier Kang Shien's return visit to the US in June. (For details on hydro projects under consideration, see *CBR* 6:4, pp. 57–59 and *CBR* 6:1, pp. 55–57.)

These federal agencies probably will not get involved in actual supervision of dam construction. More likely, they will either contract that portion of the project out to an American company through competitive bidding, or else leave the selection to the Chinese. US agencies may advise the Chinese on selection of a company, or else they might, in their recommendations for individual projects, draw up specifications based on equipment available in the US. Likewise, in other projects involving US government reimbursable assistance, US companies can contract either directly with the Chinese or through the American government.

While American companies are likely to benefit from US government involvement in Chinese hydro development, they should not be complacent. The Chinese also have discussed the development of four large hydro projects with the Japanese government and private industry, and in February a Japanese government mission went to China to tour proposed dam sites. Although little has been announced since, the Chinese specifically mentioned hydropower development as an area to benefit from a $5.2 billion extra-low-interest- loan they requested from the Japanese government in August. The Chinese have also talked with Swiss and German concerns about at least one hydro project; so the US by no means has a monopoly.

The low-key determination that the PRC is a "friendly country" applied to a provision of Section 607 of the Foreign Assistance Act of 1961. This provision deals with reimbursable aid, as opposed to the concessionary grants and long-term, low-interest loans of the regular AID programs. Those grants and loans come under another provision—Section 620—which prohibits foreign assistance to all Communist countries and includes the PRC in a list of ineligible countries. In order for China to be eligible for regular AID programs, Congress would have to pass legislation exempting the PRC from this prohibition. It is likely that this will be done for purposes of the Overseas Private Investment Corporation (OPIC), but it is not likely for concessionary AID assistance—at least not in the near future.

Reimbursable assistance, which is not subject to the prohibitions in Section 620, is available to "friendly countries" and is more oriented toward aiding middle-income countries, while regular AID programs are geared more toward the poorest countries. Reimbursable assistance programs, now open to China, are coordinated through the Office of Reimbursable Development Programs of AID. Those with questions can contact Frank Stewart, assistant coordinator for market development at that office, at (703) 235-1231. Government agencies participating in such programs include the Departments of Agriculture, Commerce, Defense, HEW, Labor, Transportation, and Treasury, as well as the EPA, FAA, Federal Highway Administration, USGS, GSA, IRS, Bureau of Mines, Coast Guard, Customs Service, Bureau of Reclamation, and Army Corps of Engineers.

Once a project with a foreign country has been specified in detail, AID must determine in writing that the project is within the purposes of the Foreign Assistance Act. This determination has not yet been made for the hydro agreement because the details have not yet been worked out.

An interesting new option is now available to American firms: direct AID financing for identifying and planning Chinese development projects which result in procurement of US goods or services. Section 661 of the Foreign Assistance Act of 1961, added in 1974, originally funded US government agencies for travel to "friendly" countries to stimulate reimbursable aid programs. As of this past year, this money is available for private firms as well as government agencies, subject to competitive selection by AID. The funds can now be used for project preparation studies even when there is no US government participation. Such funds are available for Chinese projects because Section 661 specifies "notwithstanding any other provision of this act." However, the Chinese government must specifically request help of AID for studies that might lead to projects financed with Chinese funds.

The Section 661 funds are limited—$3.8 million for fiscal 1980, beginning in October. Obviously, the funds could not finance a detailed feasibility study for a complex project, since they are meant to cover several less expensive studies. But the funds can finance anything from a trip by a few people to China to let the Chinese know what US goods and services are available for a given project, all the way to a preliminary feasibility study.

In some cases, AID will select the companies itself; in other cases, it will give the money to the foreign government and allow it to select. For example, recently AID approved a $250,000 grant to the government of Turkey for a preliminary feasibility study for a railroad tunnel under the Straits of Bosporus, using 661 funds. The Turkish government will then select a US company to do the study. It is likely that an American firm will receive the final engineering contract as well.

To avoid favoritism, AID will follow US government rules for competitive selection (as for government procurement); it is likely to also announce at the initial stage that the fact that one company wins the preliminary feasibility study contract with AID does not preclude other firms from bidding on the final construction contract.

These 661 funds are also administered by AID's Office of Reimbursable Development Programs. Companies can approach this office with suggestions for studies to be funded by AID, but they are advised to discuss the proposals with the Chinese government first. These funds are available only for projects in which the host country government expresses interest.

—DJ 完

Credit: Bob McNeely

Chairman Hua Guofeng greets Ambassador Woodcock; Vice President Mondale and family look on, August 1979.

OPIC: Three Steps Remain

As US and other foreign firms try to sort out the meaning of China's new foreign investment/joint-venture law, the US government, according to Vice President Mondale, is willing to fully support US investors by backing them with the insurance, guarantees, and loans of the Overseas Private Investment Corporation (OPIC).

OPIC's availability for projects in the PRC would mean that American firms could get US government-backed, long-term political risk insurance for investment in China, and that smaller American firms could borrow money directly from OPIC to help finance investments in the PRC. OPIC would also begin to guarantee some commercial bank loans to US companies for investment in China.

But such activities are still a way down the road. As the US law stands now, the PRC is ineligible for OPIC programs under the Foreign Assistance Act of 1961, which created OPIC. That act specifically—in Section 620 (f)—lists the PRC as not eligible for assistance because it is a Communist country. Earlier, in section 620 (b), it prohibits assistance to governments of countries unless the president determines that such a country is "not dominated or controlled by the international Communist movement."

Because the PRC is listed as ineligible, new legislation would need to be passed by Congress to exempt China from this prohibition. This was done for Yugoslavia and Romania —a one-sentence addition to the OPIC Title IV of the legislation made these two nations eligible for OPIC programs "if the president determines [it] is important to the national interest." Congress passed this provision for Yugoslavia and Romania after a brief debate in 1971.

The Carter Administration has already drafted such a one-sentence addition to make China eligible for OPIC. If Mondale's promise holds true, this bit of mini-legislation will be submitted to Congress before the end of the year—either at the same time as, or shortly after, the US-China trade agreement is submitted.

Even after both houses approve the legislation, assuming they do, two steps remain before US investors in China can benefit. One is for the president to determine it in the "national interest" for OPIC to insure investments in China —already assured. The other is for the two governments to sign a bilateral agreement establishing procedures for consultations, suitability of projects, and payment, as well as accepting the principle of arbitration in the case of dispute. With other countries, this has been accomplished by an exchange of letters.

OPIC, a self-sustaining agency of the US government under the guidance of the Secretary of State, provides political risk insurance for US companies investing in "less-developed friendly countries." This insurance covers risks of:

1) inconvertibility of currency;
2) loss of investment due to expropriation by the host government;
3) loss due to war, revolution, or insurrection.

Although some private insurance companies also now provide political risk insurance, they do so only for the first two causes, not for losses due to war. Also, they generally write only short-term insurance contracts and charge higher premiums than OPIC. OPIC will write insurance contracts for up to 20 years at a relatively low premium, but only for developing countries and for financially sound projects it approves. OPIC funds cannot be used for projects that will cost "significant numbers" of American jobs.

Premiums are determined on a project basis, not by country. For instance, natural resource development projects, such as copper mines, run a relatively high risk of expropriation and therefore have higher premiums.

In addition to insurance, OPIC's financial program guarantees commercial bank loans to US firms for investment projects in developing countries, and it also directly loans small amounts of money to companies for such investment. The direct-loan program is aimed especially at small businesses, which receive funds for about 86 percent of the OPIC-financed projects. The maximum OPIC can loan directly is \$5 million, but it will guarantee commercial loans of up to \$50 million.

OPIC has a Congressional mandate to concentrate on countries with a per capita GNP of \$520 or less (in 1975 dollars) and to encourage small businesses to invest abroad. China's per capita GNP for 1978 is estimated at \$464. Small businesses are considered to be those not listed in the Fortune 1000—those with annual sales of \$110 million or less. Small businesses accounted for about 32 percent of the 85 OPIC-insured projects in fiscal 1978.

Companies interested in OPIC insurance, guarantees, and loans can contact OPIC for information: telephone (202) 632-1854. But China is not likely to be eligible for OPIC programs until well into 1980. —DJ 宪

Now, Exim for China?

Vice President Mondale's offer to China of $2 billion in US Exim Bank credits over five years dramatically improves the competitive outlook of US exporters. The announcement was made during Mondale's August 27 Beijing University address, in which he promised additional credits "if the pace of development warrants it."

Preliminary discussions on loans to China have already begun, according to a July 13 *Asian Wall Street Journal* interview with Exim Bank President John L. Moore, Jr., the most likely being aircraft purchases and hotel, mining, and steel projects.

Such credits would become available to China following the passage of the US-China trade agreement, scheduled to go to Congress this fall, and after the fulfillment of three other statutory requirements: the Jackson-Vanik emigration provision (Section 402) of the 1974 Trade Act is either waived or amended; the president determines that Exim Bank credits to China are in the national interest; and finally, a settlement is reached on Exim Bank claims against China for unpaid loans dating back to 1946–47 valued at $26,386,019.

Preliminary discussions on the claims issue began May 11 when John Moore met with Zhang Jingfu, then China's finance minister, who was touring the US. Settlement of the dispute is expected sometime before January, when the Exim Bank presents its fiscal 1981 (October 1, 1980, to September 30, 1981) budget to Congress. This is the bank's last opportunity to ask Congress for an increase in its fiscal 1980 lending authority of $4.1 billion which becomes effective on October 1. Within this ceiling there is no lending limit by country or project, but unless the overall ceiling is increased, credits to China would reduce the funds available to other countries.

Yugoslavia, Poland, and Romania, which together received $59.2 million in loans in fiscal 1978, were the only Communist countries eligible to receive Exim Bank credits until August 18, 1978, when President Carter added Hungary to the list. The prohibition against Exim Bank loans to Communist countries, unless the President determines otherwise, was added to the bank's enabling legislation on March 13, 1968. Outstanding credits to the USSR total $456.4 million, but further lending is barred by Soviet refusal to provide the written emigration assurances required under the Jackson-Vanik amendment.

Exim Banks of six Western countries have agreed to lend China $13.187 billion as of August 1979. If the US offer of $2 billion is approved, the total would exceed $15 billion:

GOVERNMENT-GUARANTEED EXPORT CREDIT TO CHINA

Country	Amount (million US $)	Projected annual loans as percent of 1978 total
UK (12/78)	$ 1,200	16.7
France (12/78)	6,850	12.2
Italy (4/79)	1,000	3.7
Australia (4/79)	57	NA
Sweden (5/79)	350	NA
Japan (5/79)	2,000	1.8
Canada (8/79)	1,730	31.7
US (8/79*)	2,000	14.3
TOTAL	$15,187	

* Date of unilateral announcement.

Sources: US Export-Import Bank, *1978 Annual Report* and *Report to the US Congress on Export Credit Competition and the Export-Import Bank of the US*, March 1979; and National Council files.

The possibility of loans to China comes at a time when the US Exim Bank has liberalized its policies to cope with the growing use of "mixed credits," or loan packages arranged by foreign Exim Banks which combine official export credit with foreign aid. New flexibility was provided by last year's amendment to the 1945 Export-Import Bank Act, which authorized the bank to match the "rates and terms and other conditions" of its competitors, even if that meant going below the OECD minimum guidelines of 7.25 percent on official medium-term credits to developing countries. The November 10, 1978, amendment to the bank's charter also increased its loan, guarantee, and insurance authority from $25 billion to $40 billion. As a result, the bank's annual direct lending has increased almost sixfold since fiscal 1977:

US EXIM BANK DIRECT LENDING AUTHORITY

Fiscal Year	Amount* (million US $)
1977	700.0
1978	2,872.4
1979	3,750.0
1980**	4,100.0

* Unutilized portion of loan authority may not be carried over to next fiscal year.

** Requested.

Source: US Export-Import Bank.

The bank's more competitive posture is seen in the 3.75 percent interest rate charged on part of a $100 million loan to Tunisia announced on August 20. Interest on most Exim Bank credits is normally much higher, however, since the bank is a self-sustaining institution that does not receive federal appropriations, although Congress does control its credit policies. In fiscal 1978 the average cost of the bank's credit was 8.25 percent, down from 8.53 percent the year before, which compares favorably with rates charged by other Exim Banks:

CREDIT TERMS OF SELECTED EXIM BANKS IN 1978

Country	Interest rate (percent per annum)
Canada	8.7
West Germany	8.6
US	8.3
UK	8.3
France	8.2
Japan	8.0

Source: US Export-Import Bank.

The Exim Bank's total credit and guarantees in fiscal 1978 increased 31.0 percent to $7.38 billion. This financed about 6 percent of total US exports in 1978. Comparable figures for other countries in 1978 are France, 33 percent; the UK, 35 percent; and Japan, 37 percent.

Most of the US bank's recent activity has centered in Asia, where outstanding loans total $7.9 billion as of September 30, 1978, or 29.9 percent of the bank's worldwide exposure. New loans to Asian countries in fiscal 1978 were an even larger 35.5 percent share of its total loan authorization, of which most went to South Korea ($765.8 million), Taiwan ($239.5 million), Japan ($99 million), and Pakistan ($25.5 million), according to the bank's most recent *Annual Report*. —JS 完

Claims-Assets Settlement

Still Unsettled

On October 1 when China sends the first of six checks totaling $80.5 million to the US Treasury, and China's assets in the US are unblocked, the claims-assets issue which has hamstrung US-China relations for so long may fade into history. At least that is the orderly scenario the May 11 claims-assets agreement between the US and China hoped to achieve.

The optimists point to Article II of the agreement, under which China promises not to wait until its assets in the US are recovered before making a series of lump sum payments for $80.5 million over 5 years. The first installment of $30 million is to be made on October 1, 1979, followed by payments of $10.1 million every October 1 through 1984. These funds cover 41 percent of the $197 million in US private property confiscated in China after the 1949 Communist victory, according to the final sum adjudicated by the Foreign Claims Settlement Commission (*CBR* 2:5, pp. 31–44). The Treasury's Bureau of Government Financial Operations, which distributed payments arising from the Polish and Hungarian settlements, is also expected to be in charge of distributing the $80.5 million.

Although the payment of US claims is likely to proceed smoothly after October 1, the issue of China's assets is another matter. The basic problem is that when China's assets are unblocked, they will not pass automatically to the PRC, but will merely be thrown up for grabs. Recovery of these assets may entail legal scrimmaging with serious political repercussions, especially if China's sparring partners in the ensuing court battles are residents of Taiwan, or US banks and companies with substantial stakes in the China market. These include Bankers Trust Company, Citibank, and the Chase Manhattan Bank, among others. However, the First National Bank of Chicago and Chemical Bank, both of which have close financial ties with the Bank of China, have smaller inventories of PRC assets whose ownership interests are relatively clear-cut.

The cause of the problem is that China's assets, which were frozen in December 1950 and in subsequent enforcement actions by the Treasury's Office of Foreign Asset Control, were not necessarily assets which the PRC had clear ownership to, even then. At that time the critical issue was not clear lines of ownership, but rather the broad national security objective of keeping financial resources and other property out of China's hands during and after the Korean War.

China's title to these properties must now be established according to far narrower legal criteria than were used to block the assets in the first place. Some of the assets may turn out to have several claimants, or no owner at all, and will have to be turned over to the custody of states according to the abandoned property laws of the states where the assets are held.

Another difficulty is that China could fail to locate assets it might legitimately claim simply because it has no record of the assets' existence. The banks, corporations, and other holders of these assets are not required, under US law, to divulge such information, and the Treasury is helpless to furnish the information without the holder's permission. However, the Treasury has ruled that unblocked assets will only become subject to abandoned property laws one year hence, or on October 1, 1980, thereby granting the PRC additional time to ferret out unrecorded assets.

Article II, Section b, of the claims-assets agreement promises US assistance in tracking down and recovering China's assets, although the Treasury's role is that of an unofficial go-between: ". . . it will notify the holders of blocked assets which the records of the Government of the USA indicate are held in the name of residents of the PRC that the Government of the PRC requests that assets of nationals of the PRC to be unblocked not be transferred or withdrawn without its consent."

In July the Treasury Department sent letters to assets holders asking permission to divulge information to China with regard to the location and value of the assets. The extent of cooperation received is not known, however. Some banks, for example, are receiving letters from both directions—from the Bank of China as well as from US or Taiwan claimants—and are naturally anxious to observe correct legal procedures in order to avoid future lawsuits.

US banks have recently felt the noose tighten owing to letters from the Bank of China which request a full disclosure of their blocked assets. The letters are addressed "To our correspondent banks concerned," and propose that US banks disclose "the names and addresses of all those whose assets have been blocked by you and also the description and amounts of the assets, so as to enable us to check."

The pinch is also keenly felt over the issue of back interest. Until a Treasury ruling was issued this spring, only a portion of the $53.2 million of China's assets which were in the form of bank deposits were in interest-bearing accounts. The Bank of China is aware that these funds have been earning their holders substantial dividends for 29 years, and is asking for part of the accrued interest.

The breakdown of PRC assets is as follows: $20.2 million once belonged to Chinese government agencies or banks, and will be fairly easy to recover once unblocked; $23.6 million belongs to third-country banks with liabilities to Chinese residents and businesses, while most of the rest is payable directly to Chinese enterprises and nationals.—JS 㔾

Please, Miss Feng, I'd like to skip the children's palace, the commune fishery, and the repair shop, and instead sign a contract with the Ministry of Petroleum Industry.

State to Province, City to City

Sino-US Ties Expand

Engendered by US-China normalization, sister relationships are growing between American states and Chinese provinces and between cities. American mayors and governors are beginning to visit China in hopes of fostering official connections leading to a variety of cultural and economic exchanges. And Chinese delegations are beginning to reciprocate these visits, clearly eager to reach similar understandings. Already three states have initiated exchanges with particular Chinese provinces. At least one of these pairs—Illinois and Guangdong—has drawn up a cooperation agreement that needs only signing to become official.

This year's state delegations began in February, with Alaska Governor Hammond's visit to China. Since then four state delegations composed primarily of representatives from industry have visited China. A Kentucky coal mining and mining equipment group went to China in late July, after Kentucky hosted the China Coal Society last October. Ohio's Governor Rhodes returned in July from leading a trade mission which featured Hubei, to receive a Hubei delegation in August. Governors of Virginia and Kansas have also made first trips to China. And the governor of South Carolina accompanied Vice President Mondale on his August trip to China.

Indications are that Beijing will soon give the go-ahead to sister-city links with America. Already at least eight such relationships have been established between Japan and China. Members of the board of directors of Sister Cities International met with Chinese Ambassador Chai in March, and with representatives from the somewhat parallel organization, the Chinese People's Association for Friendship with Foreign Countries, when they were in Washington this September.

The position of China's mayors, replaced by group leadership called municipal revolutionary committees during the Cultural Revolution, has been revived by the Chinese. In June, at the invitation of the People's Institute of Foreign Affairs, twelve US mayors toured China to establish ties and discuss mayoral roles in the two countries.

Many American cities have inquired about having sisters in China, and some have specific Chinese cities in mind. While in the PRC in May, San Francisco's Mayor Feinstein made an informal bond with Shanghai that presumably awaits only Beijing's okay. Los Angeles's Mayor Bradley is also talking with Shanghai about a sister-city connection. It is not yet clear what role Beijing may have in assuring that city-to-city matches are appropriate.

At this point, pairing up of states and provinces—some as yet unofficial—appears rather random, motivated primarily by general goodwill and high hopes for future trade. Illinois's representative in Hong Kong, George Liu, nurtured for months the ties leading to the preliminary agreement matching Illinois, America's number one export state, with Guangdong, site of the Guangzhou trade fairs. Governor Thompson of Illinois and Guangdong Provincial Chairman Xi Chongxun plan reciprocal visits this fall, during which the agreement may be signed. Areas for potential cooperation in trade outlined in the agreement include Chinese importation of tungsten mining technology and farm machinery, and construction of or investment in a variety of plants or factories in China. Agricultural school graduates may also be sent to live on Illinois farms for a year.

An unlikely grapevine of individual acquaintanceships has led to state-province exchange between Maryland (population 4 million) and Anhui (48 million). Anhui Provincial Chairman Wan Li, an ally of Deng Xiaoping's, arrived September 10 for a tour highlighting the state of Maryland, and Governor Hughes will reciprocate with a trip to China.

Eight more governors—from Michigan, Hawaii, Kentucky, Montana, Colorado, Minnesota, and Vermont—will join a trip cosponsored by the National Governors Association and the National Committee on US-China Relations this October. Wives of the governors will also participate and have requested meetings with the All China Women's Association and women leaders. The governors have requested visits to several provincial capitals, and will discuss how national and provincial leaders cooperate.

These visits are not unusual in format, including tours of several cities, farms, factories, schools, hospitals, and businesses, as well as attendance at cultural events. However, they are doing much to increase mutual understanding, and they portend broader cultural and economic ties between all parts of China and all parts of America. Vice President Mondale made a special attempt to broaden these local Sino-US ties during his trip to China. —Katy Ehrlich 光

Former Minister of Finance Zhang Jingfu witnesses American capitalism in action on floor of the New York Stock Exchange.

Council Activities

Minister of Finance Discusses Cooperation

Summer at the National Council has been a period of planning for future activities—delegations to and from China, exhibitions, conferences, and a Beijing office. Delegations from the PRC are in planning from the Ministry of Agricultural Machinery, State Economic Commission, Rong Yiren and the China International Trust and Investment Commission, State Capital Construction Commission, and Bank of China. A number of import-oriented groups visited the US hosted by the Council and the Council was honored to assist the Department of the Treasury in making arrangements for the visit of China's minister of finance, Zhang Jingfu. The Council also briefed, among others, Henry Geller, head of the National Telecommunications and Information Agency (NTIA), prior to his visit to China, and Governor Hughes' host committee for the Anhui Province delegation, led by Wan Li.

Mutual understanding of widely differing economic systems was the theme that underlay the July visit to the US of Zhang Jingfu, China's former minister of finance, sponsored by the Treasury Department with the assistance of the National Council.

Zhang and his group, which included a vice minister as well as representatives of the Bank of China, the State Planning Commission, and the Ministry of Foreign Affairs, were very curious about the multitude of financial institutions in the US and how they interact with the local, state, and federal governments. They met with then Secretary of the Treasury Michael Blumenthal, then Federal Reserve Chairman William Miller, Exim Bank Chairman John L. Moore and several congressional leaders in Washington, as well as Federal Reserve Board Chairman Paul Volcker and representatives of the Federal Reserve Banks of Kansas City and San Francisco.

In the heart of American capitalism, they visited the throbbing New York Stock Exchange and the trading rooms of Salomon Brothers, watching as figures flashed around the room, phones buzzed, computers screened financial data, and colorfully dressed couriers dashed across the room. In meetings with such major financial experts as Henry Kaufman and David Rockefeller, the Chinese tried to get a better grip on such complex subjects as US government and municipal financing, the roles of commercial and investment banks, and—later in Chicago—US tax laws and how they affect multinational corporations.

In each of the cities they visited, Zhang explained the various forms that "economic cooperation" between the US and China can take, as follows:

1. compensation trade, especially in mining coal, petroleum, and nonferrous metals;

2. payment by installments for equipment or patent rights;

3. "joint production," where Chinese and foreign firms separately produce parts and then have them assembled in China, or where imported materials are processed in China;

4. joint ventures—with comments on China's new law;

5. loans from foreign banks and foreign governments.

Zhang Jingfu and his party were very interested in the economics of running a small farm in the Midwest and in the problems of balancing a city budget such as in Dallas.

They discussed management principles with a research institute, considered a mid-career business-school program, and viewed a Dallas exhibition center where many countries display their products for US buyers. In addition, the group toured steel, automobile, electronics, drillbit, and medical care products factories, as well as seeing a bottling plant, a California winery, a lively baseball game, and a rodeo—complete with cotton candy.

For the National Council, the highlight of Zhang's trip came in San Francisco, where he attended a reception and dinner hosted by the Council's Banking and Finance Committee. Council members were able to ask many questions, to which he responded openly.

30 YEARS OF THE PRC

October 1, 1949–October 1, 1979

The People's Republic of China's thirtieth birthday on October 1, 1979, celebrates many advances, some of which are charted opposite. Domestic progress has been facilitated by China's achievements in the community of world nations, the greatest of which was obtaining its rightful status as a fully recognized country. Long overdue, this will serve as the foundation for China's international policies and economic development for decades to come.

The familiar faces of China's leaders on the Tian An Men rostrum at this year's October 1 celebrations may give the impression that few upheavals have occurred since 1949. Not only do six Long March veterans sit in the Politburo, but prominent officials of two, and even three, decades ago, such as Deng Xiaoping, Chen Yun, Ye Jianying, and Li Xiannian still stand at the country's helm.

The appearance of continuity is the result of a coup d'état engineered by Chairman Hua Guofeng during the evening of October 6, 1976, against the "Gang of Four."

This event led to the return of China's staunch pragmatist, Deng Xiaoping, in July 1977. Since then banished government officials by the thousands have been summoned back from forced retirement and factory labor whence the radicals had sent them in the Cultural Revolution and in early party purges. A fresh breeze of tolerance, cultural revival, and renewed educational commitment has returned with them, and above all a pragmatic attitude toward development.

Swings in the economy have reflected the extreme oscillations in the country's political life. The golden age of unified leadership and rapid growth, in Beijing's view, was the First Five Year Plan (1953–57). Even today, *People's Daily* editorials often cite the high growth rate of industry and other laudatory statistics of the 1950s.

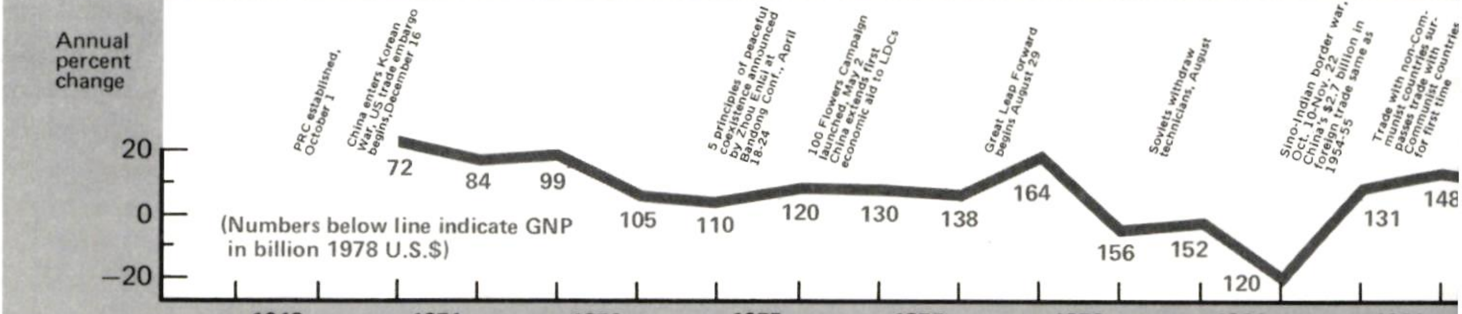
The low point in the nation's economic life came in 1959–61, the "three bad years" following Mao's ill-conceived Great Leap Forward in which every significant indicator plummeted.

Huge grain imports began in 1961 with the help of China's first Western credits. Borrowings from Communist countries ceased the same year, and by 1965 China had paid back its entire $1.4 billion loan to its erstwhile friend, the USSR.

Overshadowing China's 30-year anniversary, however, is the legacy of the Cultural Revolution and subsequent "ten lost years" (1966–75). The struggle for succession which broke out during these years paralyzed education and civilian research, resulting in losses to the nation that have retarded economic modernization ever since.

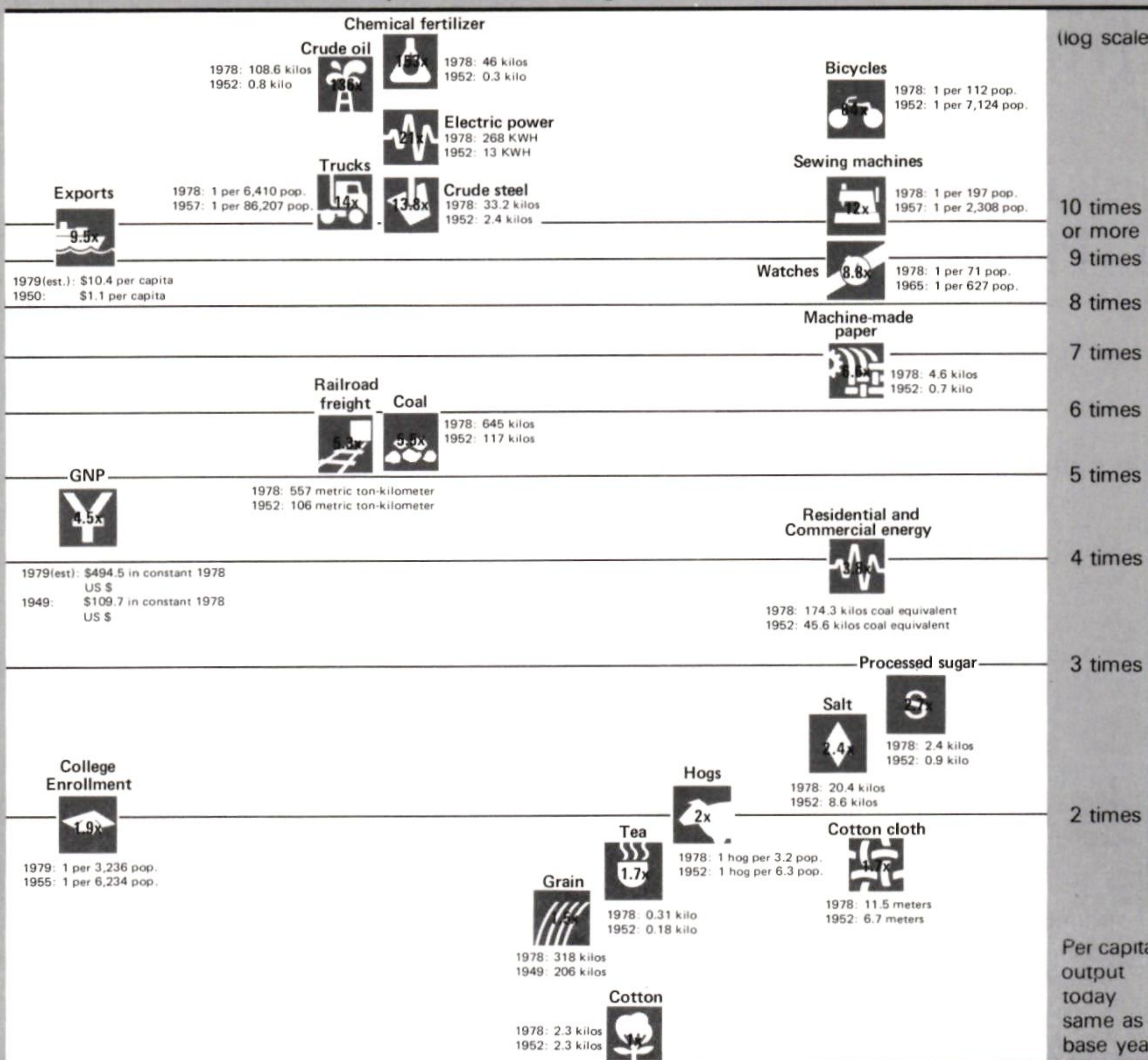
A second problem is China's relentless population growth. Despite recent declines in the birth rate, the country's population has doubled in just 30 years. This growth has wiped out many of China's otherwise impressive output statistics when calculated on a per capita basis. Recently Beijing has turned its attention to meeting the demographic challenge upon which China's prospects for the next 30 years depend.

Chronology of Significant Developments, and China's GNP Growth Rate, 195



Source: Peter Cheng, *A Chronology of the Peoples Republic of China*, Littlefield, Adams & Co., 1972; and National Council files.

Per Capita Output Today Compared with Earliest Post-1949 Levels for which Statistics Are Available



Sources: National Foreign Assessment Center, *China: A Statistical Compendium*, July, 1979; Xinhua, June 27, 1979; and JEC (ed.). Chinese Economy Post - Mao, Table 2, p. 208, November, 1978.

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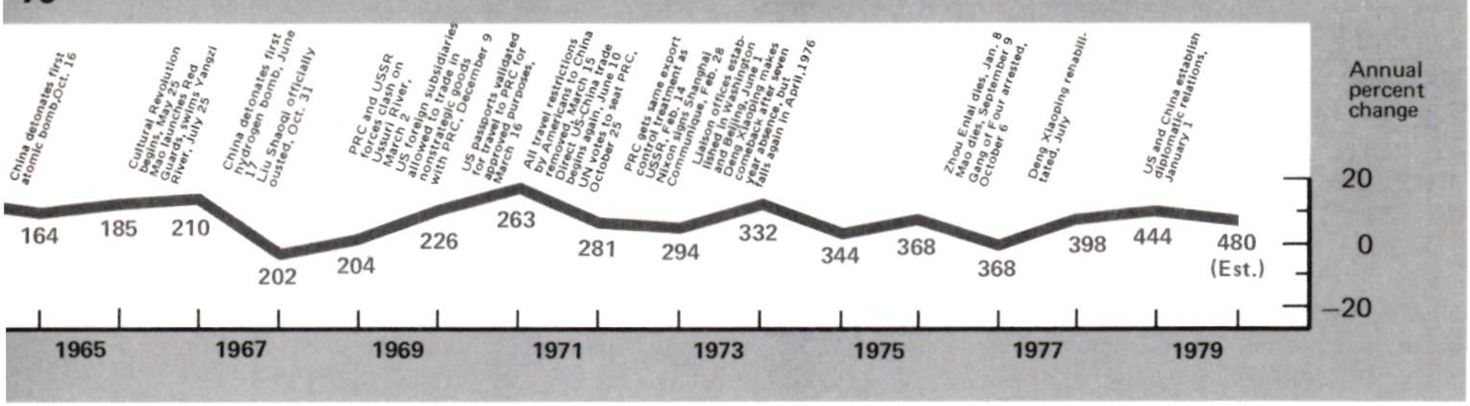


New Energy Sources in China

Bringing the Elements into Play

Kevin Fountain

Alternative sources of energy are not new in the People's Republic of China. Indeed it is significant that the first US exhibition in the PRC, in Xian in late August, was a segment of China's first solar energy exhibition, following a national conference on the subject. As this article shows, China is more advanced in some aspects of its new energy supply technologies than is generally realized.

The Chinese customarily speak of "new" rather than "alternative," "unconventional," or "renewable" energy sources, but little of this category is new. As early as the thirteenth century, "stored wheat was milled by the rushing wind" as it turned vertical-axis windmills in China. China's interest in the phenomenon of the tides predates that of Europe. The sun and moon were associated causally with a "cosmic respiration" that brought on the rise and fall of the ocean's water. China's hot springs have been bathed in and quaffed from for centuries. "Swamp" or "marsh" gas was known in the Dark Ages, and described by Shirley in 1667.

Magnetohydrodynamic power (MHD) would still seem to be an entirely new energy source, but even MHD dates back at least to 1832, when Michael Faraday claimed that a conducting fluid moving through a magnetic field would produce electric current. New emphasis, the production of electric power and other novel applications of solar, wind, biomass, geothermal, ocean, and magnetohydrodynamic energy sources has led the Chinese to speak of these as "new energy sources."

"Immediate application" is the watchword for China's new energy sources policy. Alternative energy will serve as a supplement to the giants—coal, oil, and hydropower—but this supplementary function is regarded as both important and urgent. In a recent meeting with Governor Edmund G. Brown, Jr., of California, Lin Hanxiong politely differed with the governor's prospectus for renewable energy sources as a substitute for conventional forms. But Lin hastened to praise the governor because he accorded new energy sources the primacy which they deserve, and because he recognized their ever more important role.

Lin Hanxiong, deputy director of the Second Bureau of the State Scientific and Technological Commission, headed a New Energy Sources delegation that toured American installations under sponsorship of the China Committee of the National Academy of Sciences in May and June. The delegation's reaction to the laboratories, universities, and companies they visited was consistent: We applaud US efforts at research and development, but we are primarily concerned with the immediate application of presently existing hardware and techniques.

The delegation was impressed, even overwhelmed, by massive projects such as the 5 Mw central receiver solar thermal test facility with a 222 heliostat array and a 200-foot-tall tower that they saw at Sandia Laboratory in Albuquerque. But they were perfectly willing to let America have the lead and support the expense of capital-intensive research whose results are not at all certain.

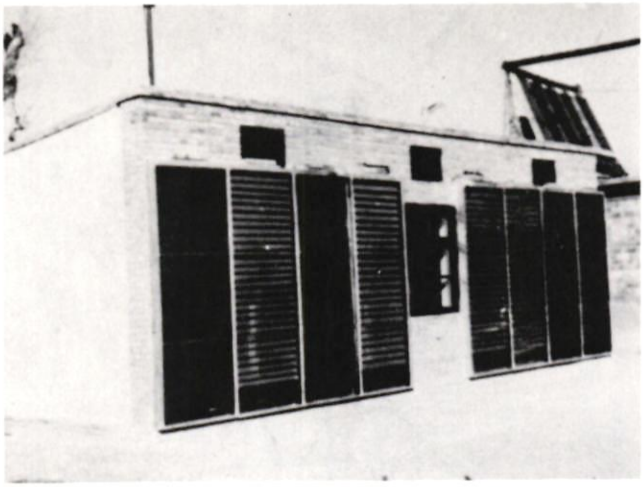
The Chinese approach to new energy sources utilization gravitates toward the consumptive end, toward the local community, the village and rural areas. Photovoltaic arrays or wind turbines can operate independently of electrical grids. They are relatively simple, and require little or no technical staff for daily operation.

Advancement in lower technologies requires a relatively small investment from the central government. The populace is encouraged, for example, to build solar collectors from materials available locally. Smaller scale, community-oriented energy systems are adaptable to varying conditions and easy to change as new components or techniques appear.

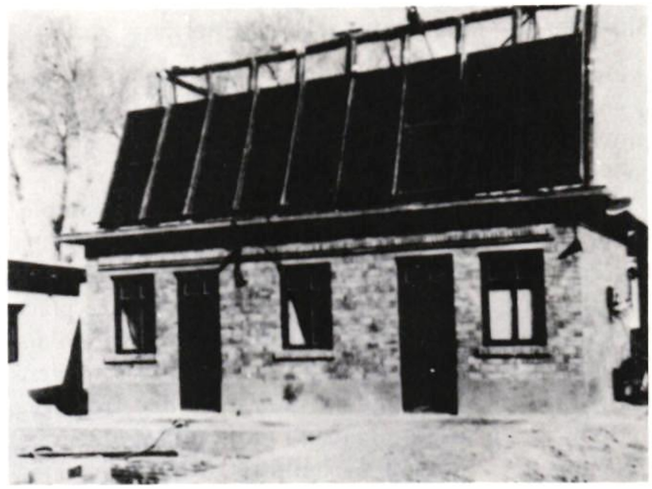
China's use of new energy sources seeks to "derive quality from quantity," to improve the quality of life by increasing the quantity of energy available for consumption. It is a cumulative strategy that regards any increment in available energy as a victory.

Solar—Bath Cars to Space Stations

China's economy has been characterized as a predominantly "solar economy." But solar energy cannot be branded as the resource of agrarian societies alone because it spans the distance between pre-industrial



30-square-meter passive solar house built in 1977.



35-square-meter active solar house completed in 1978.

economies and those which function on auxiliary energies, fossil fuels, and electricity. Solar energy also bridges the gap between the high- and low-technology approaches of the Maoist and post-Mao eras.

It is not ironic but intrinsic to the field that solar energy application was first stressed in the time known as the Great Leap Forward and is being emphasized again now. China's labor force is still underemployed; per capita energy consumption is still woefully low—half that of Mexico. New energy sources have managed to span the panorama of political vicissitudes in the People's Republic of China.

Heliothermal devices provide hot water for hotels, barber shops, and restaurants throughout China. 40,000 square meters of flat plate collectors stand in Beijing. Hairdressers in the capital have devised solar water heaters. A solar "bath car" carries 10 collectors and shower facilities for railway workers in Xinjiang. Most of the collectors now in use are of the simple tube and sheet type.

The Beijing Institute of New Technology Application, Science and Technology University in Hefei, Anhui, the Shanghai Institute of Mechanics, and Tianjin University have run tests on all types of collectors.

Several types of solar cookers have been popularized. These vary from extremely rudimentary box-style solar rice cookers for use in the paddies to a parabolic concentrator five meters in diameter which steams rice and boils water for 100 people. The posterity of a collapsible solar stove designed in Gansu may someday compete with the Coleman. It costs about 40 RMB.

The Chinese have experimented with both active and passive solar houses in Gansu. For immediate application, however, the nod has gone to passive systems. A five-story building in Xining derives one-fifth of its space heat from solar energy. The New Energy Sources delegation expressed curiosity about the Rankine machine for solar cooling, but failed at its expense. Absorption cooling equipment is under study at Tianjin University.

The Guangzhou Institute of New Energy Sources is conducting research on solar distillation and water purification on Hainan Island. Far inland, the Lanzhou Institute of Chemistry and Physics has developed a solar saline water still.

The Chinese have sought to apply solar energy directly in any economical way, encouraging the Wright brothers of the countryside. A solar welding machine for lathe tools has been built in Jiangsu. From a parabolic glass mirror 2.5 meters in diameter, the beam achieves 1800° C at the focal dot.

In 1976 the Shanghai Institute of Mechanics constructed a small solar thermal power station utilizing freon 11 as intermedium. Tianjin University is continuing heliothermal power research, using a 1 kw experimental tower.

Single crystalline silicon cells dominate Chinese photovoltaics. Several factories now slice wafers from boron-doped cylinders; ribbon cell manufacture awaits the solution of technical problems. Under laboratory conditions, Chinese silicon solar cells have attained 15 percent efficiency. Cadmium sulfide thin film cells have plateaued at 6 percent. The New Energy Sources delegation was, therefore, impressed by low cost, thin film cells that approach 10 percent, lately developed at the University of Delaware's Energy Conversion Institute.

In addition to use in aerospace, the Chinese are aware that photovoltaic cells can furnish power for radio and microwave repeaters, navigation aids, irrigation, railroad signals, environmental sensors, and, most important, remote installations. Vice Premier Kang Shien visited a Cities Service installation in Kansas, where a photovoltaic panel converts sunlight into electricity to keep well casings from rusting. In 1976 a proposal was forwarded to launch and erect a solar power station in space. But further work has been postponed for fiscal and technical reasons.

Bio-Energy—Most Popular New Energy

Over eight million small anaerobic digesters have been built in the Chinese countryside. These digesters provide over 30 million people with methane gas for cooking and lighting.

Most digesters are small—10 cubic feet—and simple. Some are "balloon" or "floating cover" types, with a fixed water level. The "water-pressure" type digester is by far the most popular. Fermentation takes place by natural process at normal (subthermophylic) temperature. Residence time is short. The digesters generate 15 cubic meters of methane per day from pig and chicken manure, nightsoil, grass, and crop stalks. The digester is cheap to build—50 RMB; the load materials are free.

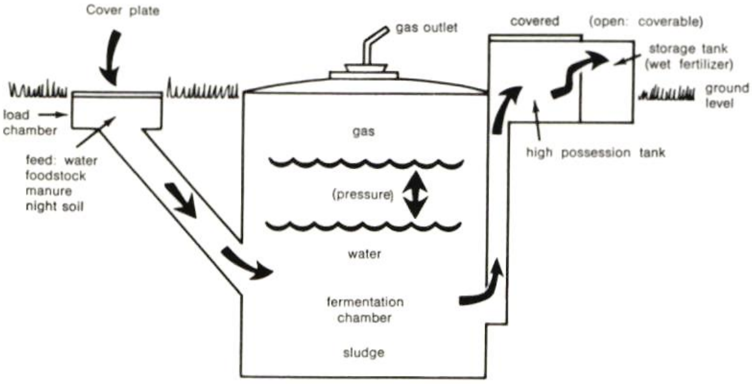
Anaerobic digesters supply fuel to the peasants but they are also instrumental in improving rural sanitary conditions and eliminating parasites. Anaerobically treated effluent preserves ammoniated nitrogen, providing value as fertilizer.

China has mounted a quiet campaign to popularize biogas production. The Guangzhou Institute of Energy Sources is carrying on research in both land and marine energy crops, such as the water hyacinth. The institute is also studying the conversion of urban waste into fuel gas. Several institutes are working on fermentation stimulants, feed and discharge, and heightening the efficiency of methane-burning stoves and lamps.

Bio-energy power plants have been built in Guangdong, Sichuan, Jiangsu and Qingdao. The methane usually powers a diesel engine and connected generator. The Guangdong Institute is researching technology to increase energy conversion and improve heat-exchange systems in pilot power stations. China is investigating the feasibility and cost-effectiveness of large-scale methane power stations.

Wind—Modest Research

More than two millennia ago, Mencius described the relationship between ruler and ruled: "When the wind blows the grass bows." Mao's global weather report—"The East wind prevails over the West wind"—maintained a traditional association of the wind with power. Today the Chinese are seriously interested in wind energy conversion systems (WECS).



Water-Pressure–Type Anaerobic Digester

China Business Review, September-October 1979.

A 40 kw wind-driven electric generator in Zhejiang Province —China feels that wind power compares favorably with the nuclear alternative.

The Chinese, customarily conscious of their neighbor to the north, have perhaps noticed that the Soviet Union is committed to construct a network of giant WECS—rotor diameter 165 feet—across the Kola Peninsula. Northeast Russia will derive electricity from 238 windmills of 1 Mw each. The Chinese feel that wind power compares favorably with the nuclear alternative, not only because it creates no pollution, but also because it is cost-competitive.

The recent "success" of two small WECS has reinforced China's incentive to develop a small wind turbine program. An 18 kw unit on Sijiao Island and another small unit at the Xiaocaohu railroad station "are working well." The latter unit generates enough electricity in two windy days to supply energy for the station's signals and lighting for two weeks.

The Second Bureau of the State Science and Technology Commission has obtained the rights to retired blades from military helicopters. Engineers hope to solve technical problems—which must begin from the fact that helicopter blades rotate in the wrong direction—that will enable them to construct portable wind generators that can be used by stockherders in the vast, windy northwest steppe.

The Chinese know that wind energy conversion systems require a relatively modest research and development budget. Wind turbine production, even mass production, does not necessitate giant factories or complex, coordinated multi-industrial efforts.

Wind-driven generators will not be limited to remote areas and pasturelands. A 40 kw WECS has been installed in the heavily populated east coast province of Zhejiang. Research Institutes have stepped up their efforts, among them Qinghua University in Beijing, where a Darrieus vertical axis, eggbeater type WECS is under construction. However, because the WECS has potential for immediate application, and because it can ignore the electric grid, wind turbines may play a larger role in rural China.

In 1978, only 6 percent of China's electrical power was consumed by the agricultural sector. In readjusting the national economy," China has affirmed that "agriculture must take the primary place." Where demand in the countryside already exceeds capacity, the People's Republic will look to the power of the wind.

Ocean Systems—"Ebb Tide"

Within the category of new energy sources, only ocean systems have failed to maintain interest. China has not totally abandoned ocean thermal energy conversion (OTEC) and ocean tidal experiments, but support for this field is declining. Many systems for converting ocean waves require expensive dams, and frequently conflict with other interests on the seacoast. OTEC operating principles have not changed since they were propounded a century ago by d'Arsonval. But the massive power plant is expensive, and both open and closed systems present thorny engineering problems.

Ocean thermal gradients of only about 20° C (as opposed to 540° C in thermal power plants) cannot produce electricity without pumping an enormous volume of water, and the energy used for pumping must be subtracted from the efficiency of the OTEC system. China has continued to carry on research in ocean tidal energy at the Qiantang estuary in Zhejiang—famous for its "angry tide"—and in OTEC in Guangzhou.

Geothermal—Extremely Abundant Resources

Contrary to pessimistic appraisals seen in some Western analyses, China is excited about her geothermal potential. Articles in Chinese begin: "China's geothermal resources are extremely abundant." More than 2,500 geothermal sites have been identified in over 30 provinces, municipalities, and autonomous regions, and localities have been directed to assist in a nationwide reconnaissance survey. In the Southeast, Guangdong's over 250 emergences include Fengshun Dengwu (93° C) and Shantou (Swatow) Dongshan Lake (102° C). Over 150 emergences appear in Fujian, and over 100 in Taiwan Province. Moderate temperature resources also appear at the surface in Jiangxi and Hunan. The Chinese have made no decision as to the best use for these sites.

The New Energy Sources delegation paid particular attention to the Raft River Geothermal Project near Malta, Idaho, where the Department of Energy hopes to advance technology and lower costs of producing electricity from moderate temperature resources.

Geothermal resources in China's West seem most immediately promising. Underground water reaches temperatures of 300° C and, 4,300 meters above sea level in the Himalayas of Tibet, a 7,300-square-meter pond steams at 50° C. In the Yangbajing, Tibet, thermal field, 10-odd geothermal wells produce 400 tons an hour of steam and water at temperatures over 150° C. Gudui Commune in Cuomei County near the border with Bhutan is situated in the middle of a high temperature hydrothermally active field as promising as the Yangbajing site.

Water at the Tengchong Volcano Hotsprings of Yunnan is 135° C at 10 meters, and 145° C at 12 meters! Most of the rest of China is abundant with low- and moderate-temperature resources. Oil drilling has frequently hit hot water. Over 200 geothermal wells have been drilled in the 590-square-km Tianjin field.

Water 30° C and above is used in dye factories (the Chinese insist that the colors are rendered brighter), to wash ducks and chickens at the Red Flag Duck Works (produce from this duck pluckery is at times exported), in hotels such as the Tianjin Hotel, in dormitories and factories. At 1,800 to 2,000 meters, temperatures reach 80° to 90° C.

Japanese businessmen have expressed interest in this area—hoping to open a resort—as well as in Tibet. Tianjin University has invited Dr. Arthur Austin of Lawrence Livermore Laboratory to lecture on the "total flow system" which he invented but which has been abandoned in the US for "political reasons." Japan, however, has picked up the total flow process, which involves the expansion of a wellhead fluid in its entirety through a single energy-conversion machine. The thermal energy is transformed into kinetic energy by expansion through a converging-diverging nozzle, the high velocity output of which is used to drive a hydraulic impulse turbine.

Since the early seventies, Chinese interest in geothermal power generation has continued to intensify. In October 1970, China's first geothermal power station—an 86 kw flash cycle unit—began operation in Dengwu, Guangdong Province.

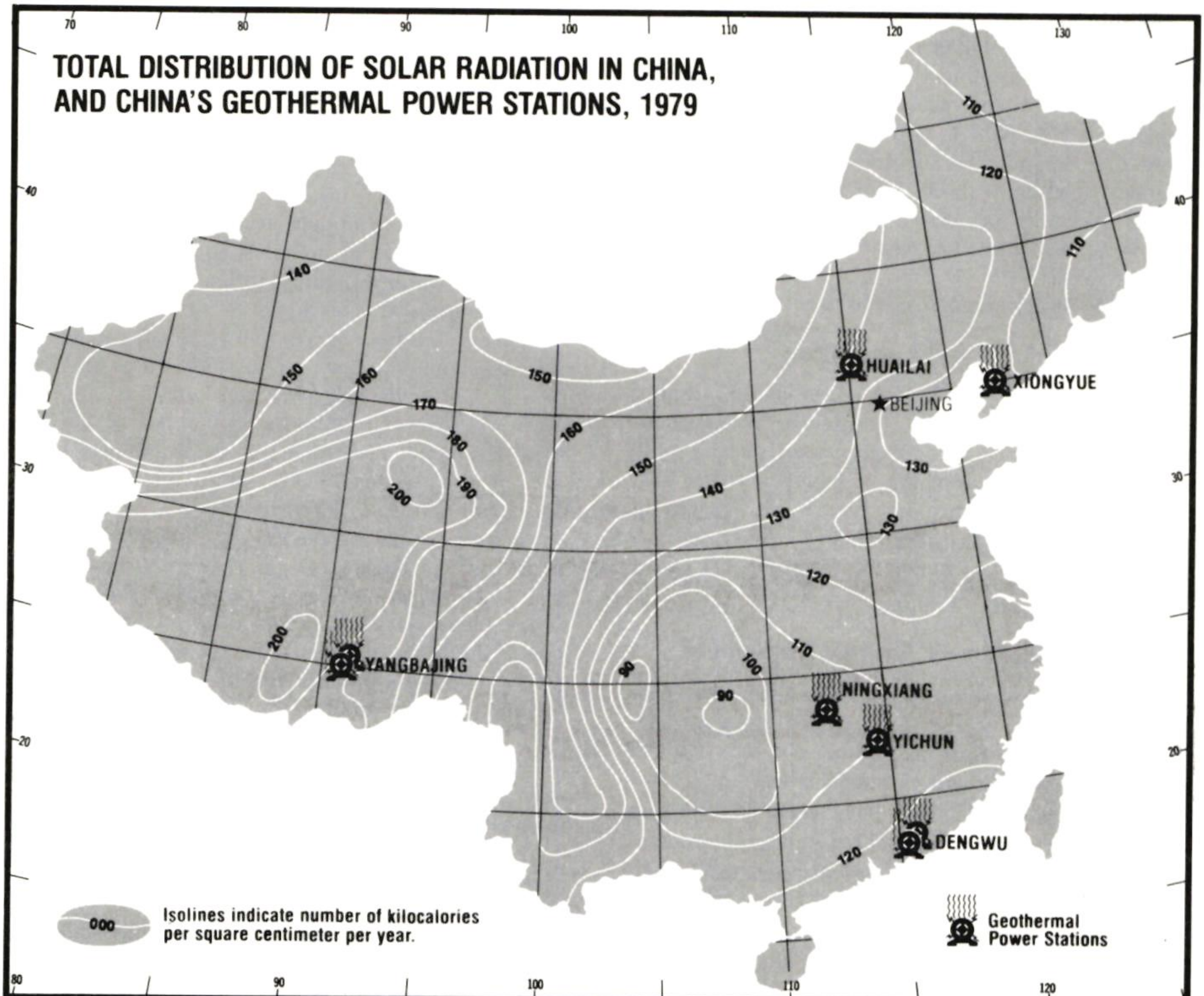
At present China has eight geothermal power stations. The largest is a 3 Mw flash cycle unit at Yangbajing, near Lhasa, Tibet. Smallest is a 50 kw station in Yichun, Jiangxi Province, that uses a binary system with ethyl chloride. In a flash system, a continuous column of steam and water, whose boiling point has been raised by hydrostatic pressure and the pressure from its own weight, is passed through a cyclonic separator where at drop to atmospheric pressure it "flashes" into steam at a turbine. A binary cycle is basically a Rankine cycle which employs a non-aqueous working fluid with a lower boiling temperature than water, a heat exchange system, turbine, and a condenser pump. Unit 2 at Fengshun, Dengwu is a 200 kw unit that utilizes a binary system of 91° C water and isobutane. Unit 2 went on line in September 1977. A 200 kw station at Huailai, Hebei, uses ethyl chloride and butane in a binary system that went on line in September 1971.

At Ningxiang, Hunan, 300 kw are generated from 92° C water. This flash system began to generate power in October 1975. A freon binary system is used in Xiongyue, Liaoning. This 100 kw unit went on line in September 1977. The first Yangbajing flash cycle unit began to generate power in September 1977.

At Yingshan, Hubei Province, the agricultural uses of geothermal water are under study. Five hundred strains of three main stocks of rice (early, middle, late) are already in their sixth generation. Geothermal greenhouses have yielded encouraging harvests. Geothermal water has also been used to keep crops and pigs warm in winter. Fish are farmed, sprouts protected, and eggs incubated with this warm water. China is also investigating sophisticated medicinal applications, space heating, and chemical extraction.

Recent visitors to the People's Republic confirm the impression derived from Chinese articles and left by the New Energy Sources delegation of Chinese enthusiasm for geothermal development. Donald F. X. Finn, managing director of the US Geothermal Energy Institute, was invited to address the Guangzhou Branch of Academia Sinica (Chinese Academy of Sciences) in July. Finn reports nationwide enthusiasm which includes plans for a 10 Mw power station.

The Chinese will closely monitor the "hot dry



Sources: *Dili Zhishi*, December 1977; *Zhonggou Dire Fazhan Xianzhuang*; (unpublished); Donald F. X. Finn, Managing Director, Geothermal Energy Institute

China Business Review, September-October 1979 rock" program, but it is unlikely that they will invest in a similar project themselves until experiments carried on by Los Alamos Scientific Laboratory at Fenton Hill, and work at Crisfield, Maryland, show results.

MHD—Experiments for a Decade

Unbeknownst to the rest of the world, China has been experimenting with magnetohydrodynamic power for more than a decade. An MHD generator converts energy directly from fossil fuel to electricity. In a coal-fired MHD generator, coal gas becomes a plasma when it is heated to very high temperatures, becomes ionized and therefore conductive. Ionization can be increased if the plasma is seeded with, for example, a compound of potassium such as potassium carbonate.

At a temperature of some 5000° F, the plasma is expanded through an MHD channel which is encased in a superconducting magnet. The electromagnetic field induces a current in the plasma fuel, and this current is extracted through electrodes in the channel walls. An inverter transforms the current to AC power. About 50 percent of the electricity generated in an MHD power plant comes directly from the MHD generator.

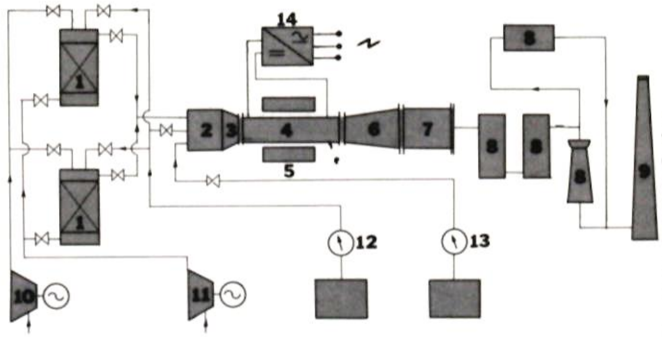
In a bottoming cycle the exhaust from the generator, still at close to 3500° F, can provide mechanical energy to turn turbines which in turn rotate a solid conductor through a magnetic field to produce power in the conventional way. The MHD power plant will extract 50 percent more energy from coal than a conventional coal-fired thermal plant.

At the same time, the magnetohydrodynamic process should be able to reduce sulfur dioxide pollution by 99 percent, nitrogen oxide pollution by 75 percent, particle pollution by 90 percent, and thermal pollution by 60 percent!

In China, four institutes have borne the burden of costly MHD research. The Institute of Electrical Engineering of Academia Sinica in Beijing is the leader in this field. The Nanjing Institute of Electrical Energy, the Shanghai Electric Machine Factory, and the Shanghai Institute of Silicates have also experimented with MHD power generation.

The Chinese have paid close attention to developments at AVCO, MIT, the University of Tennessee, Argonne National Laboratory, and in the Soviet Union. They are well aware that the USSR has the strongest commitment to MHD and the largest test facilities in the world. But China has also recognized America's advanced magnet technology. The Soviet program now uses a 12-foot, 80-ton, 5.5 Tesla superconducting magnet developed by Argonne. Despite the enormous expense involved, China is anxious to make the best possible use of considerable coal resources and has therefore decided to keep her hand in MHD, if only at a relatively small scale. 究

CHINESE MHD POWER PLANT JS-1 (Diesel-fired)



The China Business Review

1. **high temperature air preheater**
2. **combustor**
3. **accelerator**
4. **MHD channel (Faraday-type)**
5. **superconducting magnet**
6. **diffuser**
7. **cooler**
8. **seed extractor**
9. **stack**
10. **blower**
11. **compressor**
12. **oil pump**
13. **seed pump**
14. **inverter**

Source: Institute of Electricity, Academia Sinica, Beijing

THE GUANGZHOU INSTITUTE OF ENERGY SOURCES (ACADEMIA SINICA)

Established in August 1978, the Guangzhou Institute of Energy Sources was set up to study the scientific and technological aspect of the conversion and application of geothermal, biomass, and solar energy sources. Deputy Director (there is no director) Xu Li heads a staff of 136 of whom over 80 are researchers and technicians.

Biomass Division—Head, Chen Ruchen. The biomass division conducts both high- and low-technology research. The division seeks to simplify and popularize anaerobic digesters on the one hand, and is investigating large methane power plants on the other. Already China can be seen as the world's leader in bio-energy; the biomass division plans to greatly expand bio-energy production through the conversion of urban waste.

Solar Division—Head, unknown. The solar division is conducting research into heliothermal power generation and heliothermal processes such as water distillation, crop drying, air conditioning, and refrigeration. It is not known if this division is studying OTEC.

Geothermal Division—Head, Wu Zhijian. The geothermal division is concentrating on geothermal power production. Other uses of geothermal resources are not ignored, but the division's prime challenge will be lowering capital costs and improving thermodynamic systems for electric power generation from low-temperature resources.

Information Division—Head, unknown. The information research division monitors foreign research in energy sources. Indigenous and foreign theory and technology is compiled and classified.

A Ten-Year Profile of the Bank of China

Jim Stepanek

With the People's Republic of China now accounting for about a seventh of available world Exim Bank credits and 10–15 percent of loans on the eurocurrency market, the Bank of China has assumed an influential role in international finance. Domestically, the bank's role is also changing to accommodate the new crop of investment, trade, and financial commissions established since January. Symbolic of this era of change in Chinese banking, described fully in the following assessment by CBR*'s finance editor, is China's agreement to honor VISA credit cards at the fall Guangzhou Trade Fair.*

China's state-appointed foreign trade bank, the Bank of China, is no longer ideologically honor-bound to keep imports and exports in approximate balance. It has already signed $13 billion in foreign Exim Bank–guaranteed export credits and about $9 billion in commercial bank loans. Additional loans under negotiation with Exim Bank, authorities in Austria, Germany, and Argentina could soon bring China's total borrowings in 1979 to $24 billion. With a trade deficit approaching $2.5 billion this year, China's imports are no longer severely constrained by the country's export capacity, at least for the duration of China's current three-year readjustment plan (1979–81).

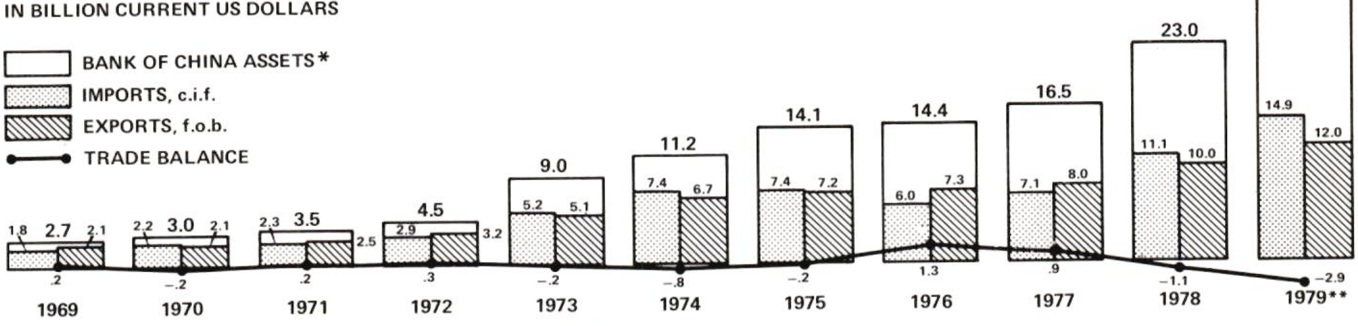
The Bank of China's policy of balancing trade was also accompanied by a Maoist injunction against accepting foreign loans. Both policies were amended in 1978, and today the Bank of China employs whatever world banking practice will accelerate the country's ambitious development program.

New Foreign Branches

On June 7 the first new branch of the Bank of China in thirty years opened in Luxembourg, largely to engage in interbank lending in the eurocurrency market. The bank's other branches in Hong Kong, Singapore, and London were originally part of a 21-branch overseas network created soon after the founding of the Bank of China in 1908, but which split apart following the 1949 revolution.

Former Minister of Finance Zhang Jingfu told a

BANK OF CHINA ASSETS AND CHINA'S FOREIGN TRADE, 1969-79
IN BILLION CURRENT US DOLLARS



* Includes customers' liabilities under letters of credit and guarantee. ** Estimated

Sources: Hong Kong Registrar General's Department, *Company Registry*, 1969-78; and National Foreign Assessment Center, *China: A Statistical Compendium*, July, 1979.

BANK OF CHINA BAL

In Current Thousand
(US Dollar Equiv

ASSETS

	1977	Percent Change	1978	Percent Change	1978 Subtotals as Percent of Total
Cash	¥49,013 **$26.436**	14.0 **19.0**	¥53,411 **$31,754**	9.0 **20.1**	0.1 —
Due from banks	¥11,606,198 **$6,260,085**	10.1 **14.9**	¥12,694,431 **$7,547,224**	9.4 **20.6**	32.8 —
Bills discounted and remittances bought	¥2,210,287 **$1,192,172**	13.8 **18.0**	¥2,939,834 **$1,747,820**	33.0 **46.6**	7.6 —
Loans and overdrafts	¥5,498,139 **$2,965,555**	–4.6 **–0.3**	¥7,155,451 **$4,254,133**	30.1 **43.5**	18.5 —
Securities and investments	¥77,443 **$41,771**	22.0 **27.4**	¥95,208 **$56,604**	22.9 **35.5**	0.3 —
Land, buildings, furniture, and equipment	¥176,876 **$95,402**	43.1 **49.3**	¥237,453 **$141,173**	34.2 **48.0**	0.6 —
Sundry accounts receivable, including under forward contracts	¥879,221 **$474,229**	15.0 **20.1**	¥1,024,132 **$608,878**	16.5 **28.4**	2.6 —
Collections receivable for customers	¥427,679 **$230,679**	1.9 **6.4**	¥653,022 **$388,241**	52.7 **68.3**	1.7 —
Customers' liabilities under letters of credit and guarantee	¥8,496,494 **$4,582,791**	11.0 **15.9**	¥12,671,321 **$7,533,485**	49.1 **64.4**	32.7 —
Trust assets	¥285,111 **$153,782**	–28.0 **–24.9**	¥295,235 **$175,526**	3.6 **14.1**	0.8 —
Other assets	¥816,757 **$440,538**	747.1 **784.6**	¥887,818 **$527,833**	8.7 **19.8**	2.3 —
TOTAL Assets	¥30,523,218 **$16,463,440**	9.7 **14.6**	¥38,707,316 **$23,012,673**	26.8 **39.8**	100.0 —

PROFIT AND LOSS STATEMENT

EXPENSES					
General	¥151,874 **$81,917**	28.1 **33.8**	¥214,444 **$127,493**	41.2 **55.6**	43.3 —
Depreciation and amortization	¥92,174 **$49,716**	25.0 **30.5**	¥116,707 **$69,386**	26.6 **39.6**	23.5 —
Net profit	¥125,379 **$67,626**	21.3 **26.7**	¥164,623 **$97,873**	31.3 **44.7**	33.2 —
TOTAL	¥369,427 **$199,259**	25.0 **30.5**	¥495,774 **$294,752**	34.2 **47.9**	100.0 —

Source: Hong Kong Registrar General's Department, *Company Registry*, 1977-78.

* Conversion factors based on period average yuan/dollar exchange rates of 1.854 in 1977 and 1.682 in 1978.

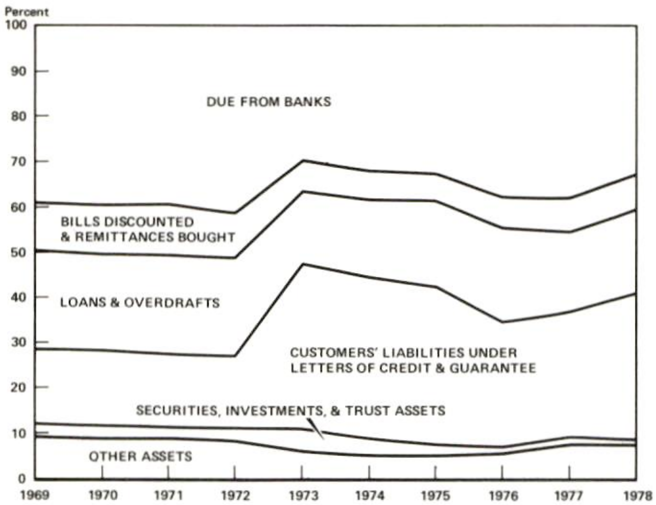
ANCE SHEET, 1977–1978

'uan As of 31 December
ilents in Boldface*)

LIABILITIES

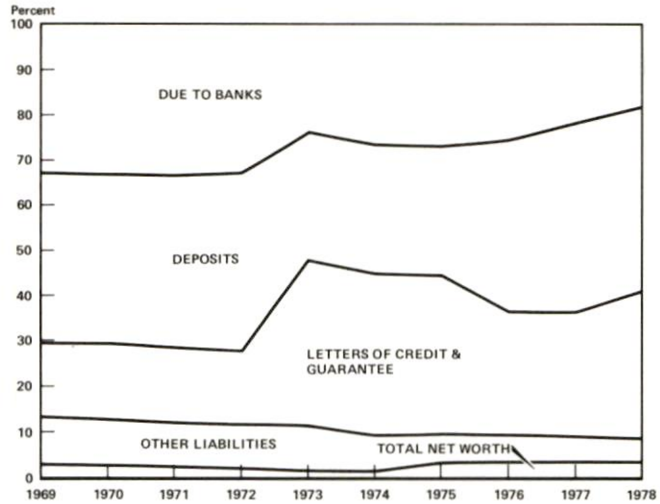
	1977	Percent Change	1978	Percent Change	1978 Subtotals as Percent of Total
Due to banks	¥6,652,244 **$3,588,049**	–6.0 **–1.8**	¥7,034,829 **$4,182,419**	5.8 **16.6**	18.2 —
Deposits	¥12,734,999 **$6,868,931**	20.6 **25.9**	¥15,769,585 **$9,375,496**	23.8 **36.5**	40.7 —
Remittances and drafts outstanding	¥120,351 **$64,914**	12.2 **17.2**	¥171,019 **$101,676**	42.1 **56.6**	0.4 —
Sundry accounts payable, including under forward contracts	¥673,482 **$363,259**	12.9 **17.9**	¥793,326 **$471,657**	17.8 **29.8**	2.1 —
Collections for customers	¥427,679 **$230,679**	1.9 **6.4**	¥653,021 **$388,241**	52.7 **68.3**	1.7 —
Letters of credit and guarantee	¥8,496,494 **$4,582,791**	11.0 **15.9**	¥12,671,321 **$7,533,485**	49.1 **64.4**	32.7 —
Trust liabilities	¥285,111 **$153,782**	–28.1 **–24.9**	¥295,235 **$175,526**	3.6 **14.1**	0.8 —
Other liabilities	¥156,932 **$84,645**	8.5 **13.3**	¥194,596 **$115,693**	24.0 **36.7**	0.5 —
TOTAL Liabilities	¥29,547,292 **$15,937,050**	9.6 **14.5**	¥37,582,932 **$22,344,193**	27.2 **40.2**	97.1 —
NET WORTH					
Capital	¥400,000 **$215,750**	0.0 **4.4**	¥400,000 **$237,812**	0.0 **10.2**	1.0 —
Surplus	¥191,826 **$103,466**	31.0 **36.8**	¥250,331 **$148,829**	30.5 **43.8**	0.7 —
Reserves	¥258,721 **$139,548**	19.2 **24.5**	¥309,430 **$183,966**	19.6 **31.8**	0.8 —
Net profit current year	¥125,379 **$67,626**	21.3 **26.7**	¥164,623 **$97,873**	31.3 **44.7**	0.4 —
TOTAL Net Worth	¥975,926 **$526,389**	12.6 **17.6**	¥1,124,384 **$668,480**	15.2 **27.0**	2.9 —
TOTAL Liabilities and Net Worth	¥30,523,218 **$16,463,440**	9.7 **14.6**	¥38,707,316 **$23,012,673**	26.8 **39.8**	100.0 —
INCOME					
TOTAL Interest, Commissions, and Other Income	¥369,427 **$199,259**	25.0 **30.5**	¥495,774 **$294,753**	34.2 **47.9**	100.0 —

BANK OF CHINA
ASSETS
MAIN ITEMS AS PERCENT OF TOTAL, 1969-78



Source: Hong Kong Registrar General's Department, *Company Registry*, 1969-78.

BANK OF CHINA
LIABILITIES AND NET WORTH
MAIN ITEMS AS PERCENT OF TOTAL, 1969-78



Source: Hong Kong Registrar General's Department, *Company Registry*, 1969-78.

THE BANK OF CHINA'S LOAN OPTIONS, MID-1979

China has used, or recently begun to consider, the following standard international practices in raising foreign exchange. The following financial options are listed in order of increasing length of maturity.

Source of Loan	Comments	Terms
SUPPLIERS' CREDIT		*Terms to exporter:**
1. Exporter maintains receivables in own portfolio; commercial bank(s) not involved **Utilized by BOC**	Payment in lump sum or in installments under progress and deferred payment arrangements, same as in item 2 below.	Exporter normally increases prices of goods sold to China to reflect imputed interest costs.
2. Exporter discounts sight or time draft, with or without recourse **Partially Utilized by BOC**	Time letters of credit are used in the US-China trade for US imports, but not yet for US exports to the PRC.**	Loan maturities 15–30 days due to leads and lags involving collections, open account transactions, and sight L/Cs; maturities 30, 60, 90, or 180 days in case of time L/C at rates (commensurate with maturities) in discount markets for banker's acceptances.
3. Note purchase agreements **Not Utilized As Yet**	Exporter's draft discounted at exporter's bank under terms of BOC agreement with domestic Exim Bank. Used by Soviet bloc countries.	Maturities 1–7 years at fixed or floating rates.
BUYERS' CREDIT		*Terms to China:*
4. Fixed-maturity deposits in foreign branches of the Bank of China **Utilized by BOC**	Deposits usually denominated in US dollars, Hong Kong dollars, or RMB.	Rates very close to prevailing 90-day commercial bank deposit rate.
5. Commercial bank loans **Utilized by BOC**	Usually offshore funds denominated in eurocurrencies. BOC's use to date of this facility: $9.2 billion. Size of world market (1978): $71.7 billion.	Loans signed to date: 6 months to 5 years at LIBOR plus 0.5 percent. Commercial bank syndications also offer loans up to 10 years or more, but BOC has not utilized this option as yet.

banking gathering on July 13 during his US tour that the Bank of China will soon open a branch in New York, possibly in the World Trade Center. Zhang also used the occasion to repeat China's desire to obtain a US government-to-government loan, and to join the IMF. Interest in the World Bank and Asian Development Bank had been expressed earlier by Vice Premier Deng in February 1979. Both institutions recently inaugurated lending programs for offshore petroleum exploration.

Fledging Debtor Turns Lender

Only months after its first eurocurrency borrowing in March, the Bank of China joined six other international banks, including the Bank of Montreal, Bank of Tokyo, and Paribas Asia Ltd., in a $42 million loan syndication to Gloxin, a subsidiary of Sun Hung Kai Securities of Hong Kong, to finance a 22-story office tower. The margin of 1.125 percent over the London interbank offer rate (LIBOR) was over twice the 0.5 percent spread that the Bank of China successfully wrung from European and Japanese bankers this spring.

The Bank of China has also established two investment banks. The China Development Finance Company, capitalized at $9.7 million, was set up on April 2 to market certificates of deposit, stocks, securities, and gold on behalf of its parent companies, including the Hong Kong branch of the Bank of China and three PRC-backed insurance companies. The managing director appointed to the China Development Finance Company was C. S. Yao, a senior Bank of China executive.

A second investment company was registered in April under the Sin Hua Trust, Savings and Commercial Bank, one of 12 affiliated Hong Kong banks controlled by the Bank of China.

Another significant innovation will take place this October 15 at the Guangzhou Trade Fair, where for the first time fairgoers will be able to use East Asia

Source of Loan	Comments	Terms
6. Exim Bank financing **Utilized by BOC**	Loans may be direct Exim Bank credits, or commercial bank credits with Exim Bank interest subsidies or guarantees. Loans often combine both elements. BOC's use to date of this facility: $12.8 billion. Size of world market (1978 estimate): $58 billion.	Maturities of loans signed to date: 1–7 years at 7.25 percent on loans under 5 years and 7.5 percent on loans over 5 years. Longer maturities will probably be accepted by the BOC in the future.
7. Loans and direct investment with state agencies **Utilized by BOC**	Examples: Joint ventures and Fujian Province Investment Enterprise Company. Loans to these entities are guaranteed by BOC.	Shares in Fujian company sell for ¥500 each ($322.6 at current exchange rates), yielding 8 percent per annum over 12 years.
8. Foreign bonds including "Yankee bonds" **Not Utilized As Yet**	Defined as bonds sold in domestic market denominated in the currency of that country. Size of world market (1978): $20.8 billion.	Maturities 7–15 years, usually at fixed rates.
9. International ("euro") bonds **Not Utilized As Yet**	Defined as bonds underwritten and sold in more than one market simultaneously. Size of world market (1978): $14.1 billion.	Maturities 7–15 years at fixed or floating rates.
10. Long-term borrowing from insurance companies **Not Utilized As Yet**	Most US insurance companies adhere to state guidelines limiting foreign exposure, exclusive of Canada, to 1 percent of qualified assets. Size of world market (1978): $0.5 billion.	Maturities usually 15–20 years at fixed rates.
11. Government-to-government loans **Not Utilized As Yet**	The PRC requested such loans from Japan in May, and from the US in July.	Maturities 20–30 years at fixed rates.

* These terms differ from China's costs for suppliers' credits, which depend on how much foreign exporters increase their prices to reflect their actual or imputed interest, and the cost, if any, of banking services.

** Time letters of credit may not appear in US-China trade until October 1, when the Bank of China is expected to open accounts in domestic US banks. However China's nonadherence to ICC letter of credit practices may delay the use of time letters of credit further.

Sources: IBRD, *Borrowing in International Capital Markets*, March, 1979; US Export-Import Bank, *Report to the US Congress on Export Credit Competition and the Export-Import Bank of the United States*, March, 1979; and National Council for US-China Trade financial files.

BANK OF CHINA REMITTANCES RECEIVED FROM OVERSEAS CHINESE COMPARED WITH REMITTANCES RECEIVED BY OTHER COUNTRIES AND REGIONS

In Million Current US Dollars. Negative Figures Indicate Net Outflows.

	1976	1977	1978
Bank of China	—	—	550
Taiwan	22	7	−19
India	768	—	—
Pakistan	431	883	1,400*
Turkey	1,104	1,086	—
Saudi Arabia	−1,473	−1,504	—

* Preliminary
Sources: IMF, *International Financial Statistics*, May 1979; State Statistical Bureau, June 27, 1979; and the Chinese Ministry of Finance of the PRC, July 1979.

Bank Americard-Visa cards. The Guangzhou branch of the Bank of China will honor these credit cards under a recent agreement with the Bank of East Asia Ltd., which formed a joint venture with the Bank of America in Hong Kong to issue the cards, according to a September 5 *Journal of Commerce* report.

Beijing Tightens Supervision

In April the Bank of China came under tighter control by central planners, and was placed directly under the State Council, instead of the People's Bank of China, its former parent body. The local branches of the People's Bank, believed to number 34,000, still work closely with the 60 domestic branches of the Bank of China by exchanging foreign remittances from overseas Chinese—valued at about $550 million in 1978 according to Ministry of Finance sources—and by cashing yuan-denominated travelers' checks sold abroad by the foreign branches of the Bank of China.

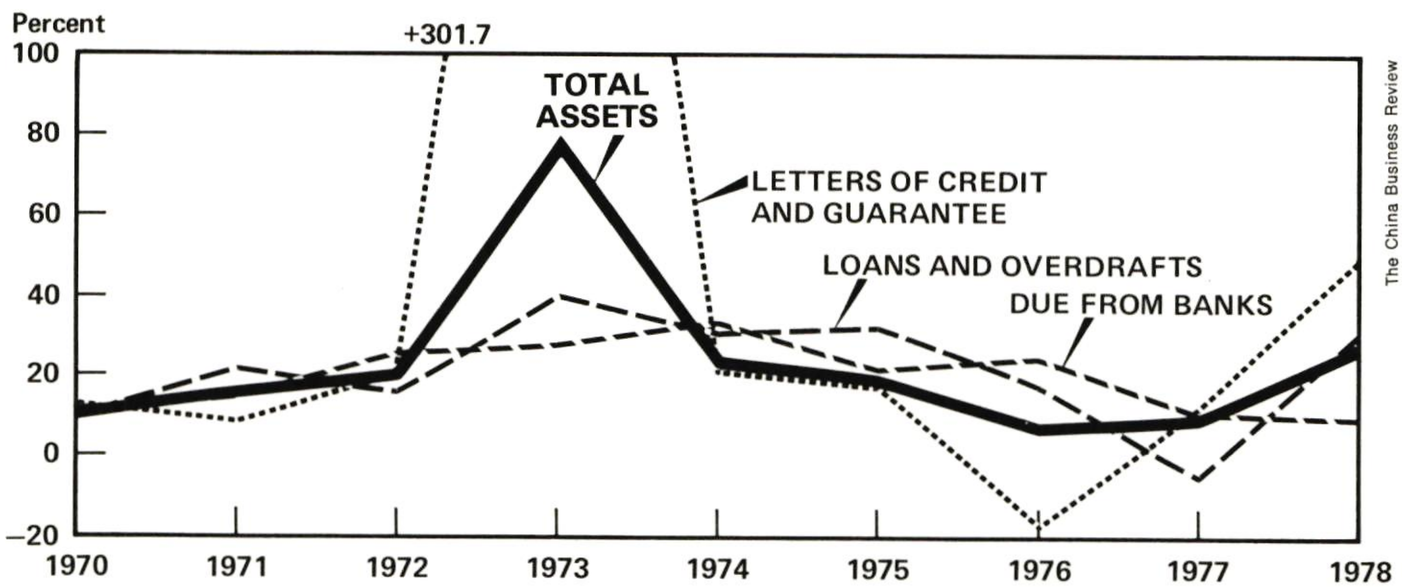
The same State Council directive also established a State General Administration of Exchange Control as a form of exchequer of the country's foreign exchange reserves and watchdog over the Bank of China's international payments. The Ministry of Finance still plays a supervisory role, but it may have been spread too thin by the recent proliferation of new financial agencies.

The most powerful entity to emerge is the new State Finance and Economic Commission established in June under Vice Premier Chen Yun. It brings together into a single executive planning council 13 of China's foremost economic and financial leaders. These include all five heads of China's planning commissions (covering long-range, annual, investment, agricultural, and science and technology planning), in addition to the minister of finance and minister of food. Despite the commission's responsibility over balance of payments policy, it does not include the Bank of China's Honorary Chairman, Qiao Peixin, or its new chairman, Bu Ming.

The net result of these changes has been to limit the Bank of China's planning authority. It now conducts annual balance of payments planning, but longer-

BANK OF CHINA GROWTH RATE OF KEY ASSET ITEMS

PERCENT CHANGE PER ANNUM, 1970-78



Source: Hong Kong Registrar General's Department, *Company Registry*, 1969-78.

range planning is mainly in the hands of the State Planning Commission and Ministry of Finance. However, the foreign exchange rate of the RMB is still set by the People's Bank of China.

Redefining Its Role

No event raises more puzzling questions about the Bank of China's future role than the emergence of new investment institutions that specialize in joint ventures, compensation trade, and in attracting foreign capital to export processing zones.

The most important of these are the Foreign Investment Control Commission, and the Import-Export Control Commission, both established on July 30 under Vice Premier Gu Mu (see page 9). Since the Bank of China is still China's sole agent in the world of international finance, close cooperation between the Bank and these new entities is expected, although the nature of their institutional ties is still not apparent.

Another newcomer on the financial scene is the new China International Trust and Investment Corporation (CITIC), which comes directly under the State Council, and is headed by the former Shanghai textile magnate, Rong Yiren (see pp. 7-8). It is in charge of negotiating joint ventures, and works closely with China's growing number of regional investment companies, such as the Beijing Economic Development Corporation, and the Fujian Provincial Investment Enterprise Company (*CBR* 6:4, p. 48).

The Fujian company has announced plans to sell ¥500 shares ($323.8 at current exchange rates), and has already signed an $8 million short-term loan from the First National Bank of Chicago. The Ministry of Finance delegation that toured the US in July indicated that international borrowings by provincial-level state agencies will be guaranteed by the Bank of China.

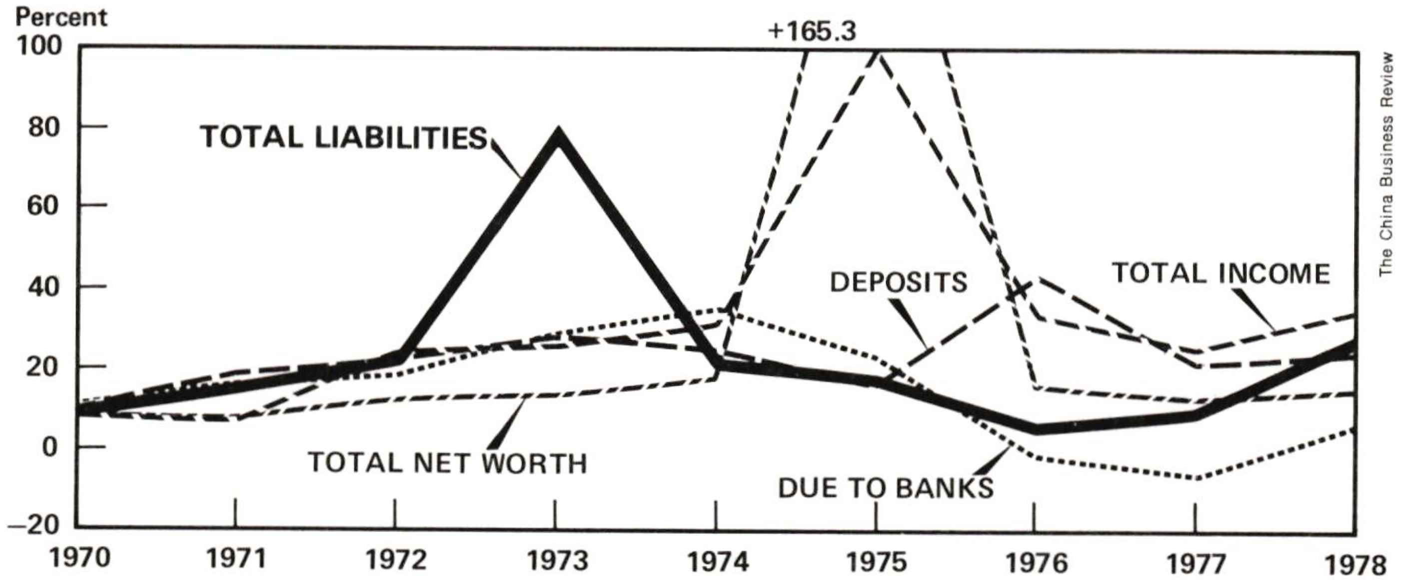
Two provinces were also recently granted broader authority in the area of foreign trade and finance, according to Canton's *Nanfang Daily* of August 12. Beginning in January, the State Council has decided to grant Fujian and Guangdong Provinces the right to retain a larger share of the foreign exchange earnings from their exports, and more flexibility in negotiating joint ventures and compensation-trade deals. The State Council's rationale for the special treatment was that Fujian and Guangdong "are the home provinces of many overseas Chinese. They are thus in a position to go faster in economic development," according to an August 29 report in Hong Kong's *Ta Kung Pao*.

Growth of Assets

The major development in the Bank of China's balance sheets is the rapid growth of assets by 23 percent per year over the ten-year period, 1969–78. This is slightly higher than China's 21 percent average annual growth in foreign trade over the same period.

The BOC's total assets were ¥38.7 billion ($23.0 billion) in 1978, about equal to those of the First National Bank of Chicago. These are modest for a country of China's size; however, China remains a

BANK OF CHINA
GROWTH RATE OF TOTAL LIABILITIES AND NET WORTH
PERCENT CHANGE PER ANNUM, 1970-78



Source: Hong Kong Registrar General's Department, *Company Registry*, 1969-78.

THE BANK OF CHINA'S INCREASED USE OF LETTERS OF CREDIT, 1969–78
(In current million US dollars)

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
China's imports, cif, from non-Communist countries	1,540	1,865	1,810	2,315	4,515	6,415	6,385	4,905	5,950	9,500
Letters of credit issued by the Bank of China	451	505	563	724	3,290	4,023	4,955	3,954	4,583	7,534
Letters of credit as percentage of China's imports	29.3	27.1	31.1	31.3	72.9	62.7	77.6	80.6	77.0	79.3

Sources: National Foreign Assessment Center, *China: A Statistical Compendium*, July 1979; and Hong Kong Registrar General's Department.

relatively minor trading nation with two-way trade in 1978 valued at 0.9 percent of world trade, and under 5 percent of GNP (compared to trade equivalent to 15.5 percent of GNP for the US and 18.1 percent for Japan in 1978).

The BOC's largest asset item in 1978 was $7.5 billion under due from banks, representing China's deposits in banks worldwide. If $4.2 billion under due to banks on the liability side of the balance sheet is subtracted from this sum, China emerges as a consistent net lender for the past ten years, with net deposits of $3.4 billion in 1978.

Foreign exchange reserves are probably less than this, since the Bank of China's $9.4 billion deposit liabilities in 1978 contain fixed-term deposits that should be subtracted from this figure in order to obtain an overall reserve figure. To refine the calculation, one would also have to itemize trust accounts, sundry accounts receivable, and a few other minor items.

The only official statement as to the Bank of China's reserves is Vice Premier Li Xiannian's remark to Kyodo News Service on July 13, 1978, that foreign currency reserves "total well over $2 billion dollars." But fluctuations in China's reserves may be observed in the Bank of China's net deposit position in the eurocurrency and Asia dollar markets, where a major portion of China's total reserves are maintained. These deposits fell by 25 percent in 1978 to $1.5 billion from a level of $2.0 billion in 1977, according to Bank of International Settlement statistics.

Bank of China balance sheets are provided to the monetary authorities in Hong Kong, Singapore, and London on an annual basis according to local regulations, and while bankers believe the statements to be accurate they nevertheless conceal many vital statistics under grab-bag categories, which diminishes the usefulness of the data for detailed analysis.

Increased Use of Letters of Credit

China now uses letters of credit to pay for 79.3 be seen in the increased use of letters of credit and guarantee, the chief method used by Western banks to transact international payments. Unlike Western banks, however, the Bank of China's balance sheet includes letters of credit, whereas Western banks list them off the balance sheet as contingent liabilities.

China's haste to adopt international practices can percent of its imports from non-Communist countries, compared with only 29.3 percent a decade ago, making this the fastest growing balance sheet item.

Prior to 1973, China relied heavily on cash deals with the West, and on bilateral trade and payment agreements with developing countries, such as the rice-rubber arrangement which began when Sri Lanka sold natural rubber to China during the Korean War embargo.

Greater use is being made of time letters of credit, as well, which permit the Bank of China to pay for imports 60, 90, or 180 days after the shipping documents and draft are presented. This method of payment provides China with short-term credit. Moreover, interest rates are usually attractive, since they may be discounted, currently at 11.5 percent, as opposed to about 12.5 percent that China is paying to European bank syndicates.

Time letters of credit are not used for US exports to China as yet, owing to the unresolved issues of MFN and textile quotas. These political questions have delayed closer financial cooperation between the US and China far more than the lack of US Exim Bank financing. The message carried privately to

American bankers by former Minister Zhang Jingfu during his recent visit was that China does not want its trade deficit with the US to be bridged by US loans until its exports have better access to the American market.

Loans and overdrafts, the Bank of China's third largest asset item at $4.3 billion, are probably advances to the China Resources Company, the government's chief trade representative in Hong Kong, and to China's 12 Foreign Trade Corporations for down payments on imports.

Deposit Liabilities Increase

Deposits have increased by 23.2 percent per year since 1969, and are now the largest liability in the Bank of China's accounts. About $1.5–2.0 billion of the $9.4 billion in total deposits in 1978 represent non-interest bearing balances held by many of the over 830 foreign banks (including 24 US banks) with full correspondent relations with the Bank of China.

Other deposit items include the working balances of Foreign Trade Corporations, the China Ocean Shipping Company, and accounts held by state banks of countries with which China has signed bilateral payment agreements. Deposits also include fixed-maturity accounts maintained by Western banks that wish to promote goodwill in hopes of opening offices in China, or in signing loan deals.

About one-half of the Bank of China's deposits are believed to be held in the bank's Hong Kong branch, which controls 12 sister banks and a computerized network of 140 branch banks with at least 25 percent of Hong Kong's total deposit base.

The Bank of China's second largest liability item in 1978 was a matching debit account covering obligations under letters of credit, for $7.5 billion.

Steady Profitability

Profits have risen 44.1 percent per year since 1969, and by 77.0 percent annually since 1975, owing to a large injection of fixed capital in 1975 of $380 million.

The Bank of China is one-third privately owned under its original Articles of Association. These were drawn up before 1949, but have not been changed. Since the bank's private owners have not been heard from, the large capital subscription to the bank in 1975 presumably came entirely from the government.

The two categories "surplus" and "reserves" are probably accrued interest and profits from previous years, and account for about half of the Bank of China's total net worth of $668 million in 1978.

In comparison with other banks, the Bank of China gets a low return on capital, as measured by the ratio of profits to net worth. For example, in 1978 it had only one-fourth the 55 percent profit-to-net-worth ratio of the Bank of America.

The Bank of China is highly liquid, however. Cash plus due from banks was 33.9 percent of total liabilities in 1978, as against 12 percent for the Bank of America. The bank is also highly leveraged, with financial obligations to other institutions and countries about fifty times larger than net worth, a ratio private US banks could not afford to maintain since their credit worthiness is not backed by the government.

In terms of all three of the standard measures of profitability, liquidity, and leverage, the Bank of China and Romanian Foreign Trade Bank bear remarkable similarity. This is perhaps due to the evident lack of incentive for state-supported institutions to minimize non-interest bearing assets, maintain large reserves, or emphasize corporate profitability.

Following is a comparison of the Bank of China and five other banks with respect to three leading banking ratios:

BANKING RATIOS OF THE BANK OF CHINA, ROMANIAN FOREIGN TRADE BANK, AND US BANKS

Ratio	As of December 31, 1978 (in percent)
Profitability	
Bank of America	54.5
Citibank	51.1
Chase Manhattan Bank	43.8
First National Bank of Chicago	33.9
Romanian Foreign Trade Bank	26.6*
Bank of China	*14.7*
Liquidity	
Romanian Foreign Trade Bank	56.5*
Bank of China	*33.9*
Chase Manhattan Bank	13.9
Bank of America	12.0
Citibank	9.1
First National Bank of Chicago**	9.1
Leverage	
First National Bank of Chicago	3.8
Citibank	3.5
Chase Manhattan Bank	3.0
Bank of America	2.6
Bank of China	*2.4*
Romanian Foreign Trade Bank	1.3*

Note: The formulas used to compute the above banking ratios are presented in an accompanying table.

* Data as of December 31, 1975.

** Includes only non-interest bearing due from bank assets.

Sources: Rand McNally International, *Banker's Directory*, 1979; Hong Kong Registrar General's Department; and Banca Romana de Comert Exterior (Romanian Foreign Trade Bank), *Annual Bulletin*, Bucharest, 1975.

The Increasing Appeal of Soft Loans

The Bank of China's next move following the signing of multibillion-dollar loans this spring is likely to be the gradual rolling over of China's outstanding debt. China desires long-term fixed-rate financing to pay for its development projects, but most of its credits signed thus far involve floating rates which call for repayment in less than seven years (see chart).

Due to this early repayment schedule, the equipment imported with these funds will fail to reach full production capacity in time to pay for itself, hence fixed-rate loans of longer duration are required if these projects are to be self-liquidating.

As a practical matter, borrowing commercial credit at floating rates was the most convenient way for China to establish its credit rating. But it is probably not what China intends to use in the future; indeed, the drawdowns made on these loans have been negligible, which bears witness to China's intention to refinance a large portion of the loans that it recently negotiated.

In May, Vice Premier Deng expressed interest in a Japanese government-to-government loan. This was followed in June by a formal request from Bu Ming, then the general manager of the Bank of China and now its chairman. As early as February, however, Chinese and Japanese officials talked over the possibility of extending credit to China from the Overseas Economic Cooperation Fund, Japan's soft loan window for developing countries. This led to a request by China in August for a $5.2 billion 20–30-year loan at 2 percent per year to modernize China's railways and hydroelectric power industry.

A similar request for a government-to-government loan was made to the US in July. The request was also a warning, especially in view of last February's incident in which China unilaterally froze $2.6 billion in Japanese imports until financing was arranged. This led foreign observers to speculate that China's trade will follow the country offering the best lines of credit. The message was taken to heart by Japan, which extended $2 billion in Exim Bank credits to China in May, at 6.25 percent fixed, and in the process undercut OECD guidelines by over one percentage point.

However, the issue of US concessionary credit to China remains a moot point, since US Exim Bank credit still awaits the passage of the US-China trade agreement and settlement of $26 million in Exim Bank claims, although both issues are expected to be resolved soon. China is already a major user of Exim Bank credits, having contracted for roughly one-seventh of the funds available worldwide from direct Exim Bank loans or Exim Bank-guaranteed credits.

Foreign aid from the United States is out of the question until the president determines that China is not "dominated or controlled by the international Communist movement," as stipulated in Section 620b of the 1961 Foreign Assistance Act. But China has been declared a "friendly country" under Section 607 of the same act, which opens the door to reimbursable assistance. Administered by the Agency for International Development (AID), this program makes available technical assistance from almost two dozen government agencies, provided China is willing to pay (see pp. 18-19).

Chinese bankers have recently solicited advice about borrowing from insurance companies and issuing bonds. Worldwide lending by insurance companies in 1978 totaled only $500 million, although maturities normally exceeded 15 years, and interest rates were fixed. Total borrowing in the world bond market in 1978 came to $36.7 billion, of which 4 percent were "Yankee bonds," a term denoting dollar-denominated bonds sold by foreign entities in the US market. China is thoroughly investigating this option, and is reportedly looking into eurobonds, as well, which are denominated in such international currencies as the US dollar, DM, and SDR. The predominant issuers of such bonds last year were governments and international organizations which sought to roll over debt.

Finally, the Bank of China could reenter the eurocurrency market and simply refinance its debt with loans of similar maturity. China has already signed eurocurrency loans in 1979 worth 10–15 percent of the total market. New loans would at least delay the repayment schedule that China is now locked into. Worldwide borrowing on the eurocurrency market in 1978 came to $71.7 billion, of which $43.0 billion or 60 percent was money raised to refinance earlier loans, according to World Bank statistics. 完

BANK OF CHINA BANKING RATIOS, 1969–78
(In percent)

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
Profitability	5.4	5.4	5.2	6.0	7.0	7.9	9.0	11.9	12.8	14.7
Liquidity	40.7	41.1	40.8	42.3	30.0	32.5	33.5	39.3	39.4	33.9
Leverage	1.8	1.8	1.7	1.6	1.0	1.0	2.6	2.8	2.7	2.4

$\text{Profitability} = \frac{\text{Net Profit}}{\text{Net Worth}}$ $\quad \text{Liquidity} = \frac{\text{Cash + Due from Banks}}{\text{Total Liabilities}}$ $\quad \text{Leverage} = \frac{\text{Net Worth − Non-banking Assets}}{\text{Total Liabilities}}$

Credit: Bob McNeely

China's famous Democracy Wall on Beijing's Xidan Street.

China's New Revolution Introduces Democracy

"All men are equal before the law. . . . Whoever breaks the law and commits a crime, no matter how great his seniority, how important his office, and how large his contributions, shall not be indulged and shielded, but punished according to law. . . ."

—Peng Zhen, *Explanation on the Seven Draft Laws,* June 26, 1979

China's leaders have instituted a sweeping judicial revolution with the promulgation of six draft laws that pave the way for the development of a modern and comprehensive legal system in the PRC. In this article by Karen A. Berney it is apparent that the new civil and criminal legislation, adopted at the Fifth National People's Congress (July 1), not only signals Beijing's desire to return to normalcy after the political upheavals of the past two decades, but also makes clear that the rule of law is to take precedence over the arbitrary decrees of men, for the first time since the founding of the republic in 1949.

NEW ELECTORAL LAWS WILL BROADEN THE SCOPE OF DEMOCRACY

All citizens of the PRC who have reached the age of 18 shall have the right to elect and be elected irrespective of nationality, race, sex, occupation, social origin, religion, education, property status, or length of residence. . . . The number of candidates to the people's congresses at various levels shall be larger than the number of deputies to be elected.

—Electoral Law of the PRC, (Articles 3 and 27), July 1, 1979

HUMAN RIGHTS UNDER CHINA'S THREE CONSTITUTIONS (1954–1978)

Since the founding of the PRC in 1949, China's National People's Congresses have adopted three versions of the state Constitution—in 1954, 1975, and 1978. Each one has reflected transformations in the PRC's socioeconomic and political structure and served as a formal platform for enunciating Beijing's goals and aspirations.

The documents also underscore the leadership's changing definition of individual rights, which has received the broadest treatment under Chapter 3 of the 1978 Constitution. Restoring and adding to the political and legal rights granted in 1954 and deleted in the 1975 version, the provisions of the 1978 Constitution are ensured implementation and enforcement by the new criminal code and law on criminal procedure.

As the new laws begin to come on stream in 1980, China will enter a new period of legal development, with stress on building a solid framework for political, social, and economic stability.

The Fundamental Rights and Duties of Citizens under the PRC's Constitutions

1954 Constitutional Provisions	1975 Status	1978 Status
Equality before the law.	Deleted.	Reintroduced in 1979 criminal laws.
No person may be arrested except by decision of a people's court with the sanction of a people's procuratorate.	Assigned procuratorial powers and functions to public security organs (police).	Reasserted independence of procuratorate and its role in approving warrants for arrest.
Supreme People's Court as highest judicial organ of the state.	Deleted.	Reasserted.
Freedom of speech, assembly, demonstration, to vote and stand for election, and practice religion.	Reaffirmed, added freedom to strike and propagate atheism.	Reafirmed, adds: Freedom "to speak out, air views, hold great debates, and write big-character posters."
Women enjoy equal rights with men in all spheres.	Reaffirmed.	Reaffirmed, adds: Equal pay for equal work.
Right to education, work, rest, material assistance in old age, and to lodge complaints with state organs.	Reaffirmed.	Reaffirmed, adds: Right of accused to defense and public trial for first time under Section V.
Freedom to engage in scientific research, literary and artistic creation, and other cultural pursuits. The state encourages and assists this work.	Deleted.	Reinstated, adds: State encouragement of journalism, publishing, public health, and sports.

Anyone who violates the stipulations laid down in the electoral law, sabotages elections by force, threats, deception or bribery, or obstructs the free exercise of a citizen's right to vote or stand for election will be sentenced to detention or imprisonment for not more than three years.

—Criminal Law of the PRC
(Article 142)

The sweeping set of legislation drafted by deputies to the NPC marks a turning point in the political history of the PRC. The two electoral laws revising provisions of the 1978 Constitution encompass the expansion of grass-roots democracy through the direct election of county-level people's congresses, involving competition among candidates. Similarly, the new legal reforms revive the principles of an independent judiciary and equality before the law, first promised in the 1954 Constitution. Although direct local elections appear to be no more than a formality intended to replace apathy and cynicism with popular participation and enthusiasm, the new electoral rules do plug up past loopholes in the system which fostered the rigging of elections. The former practice required that the number of nominated candidates for each office be equal to the number of seats available.

The innovation is that there should be at least three candidates running for every two seats in the direct county election; these representatives, who in turn choose deputies to the people's congresses of the provinces, autonomous regions, and municipalities, should be able to select from a group one-half to one-fifth greater than the number of slots to be filled.

However, because candidates at each level are to be nominated by various groups in consultation with the Communist party (Article 26), it is likely that the latter will retain its approval and veto power in the selection process. Furthermore, the electoral changes will not alter the functions of the congresses, which essentially consist of endorsing and enforcing the policy decisions made by the upper echelons of the ruling Communist party.

Another new twist is that the previous voting method of a show of hands is to be scrapped and replaced with secret balloting (Article 33). According to Chinese officials, this should facilitate free expression and put an end to the past practice whereby local cadres could influence the outcome of elections by threatening reprisals.

Working closely with the people's congresses and their standing committees will be newly formed administrative bodies, "the local people's governments." These will replace the revolutionary committees formed in the aftermath of Cultural Revolution anarchy to restore some semblance of law and order. With the eradication of the last remnants of the Cultural Revolution, power over day-to-day affairs will pass from party cadres to provincial governors, city mayors, and county prefectures, posts which have been restored under the Organic Law of the Local People Governments of the PRC. Each one of these changes regarding the electoral system and structure of government were adopted as amendments to the 1978 constitution.

The new laws, to be effective January 1, 1980, appear to be Beijing's response to the controversy over what role democracy and legality should play in Chinese society. This debate has been on-again, off-again since 1975, when the Constitution adopted by the Fourth NPC reaffirmed such generally recognized rights as freedom of speech, of assembly and demonstration, and of religious belief. The 1978 Constitution, going even further, legitimized political expression in the form of "holding great debates and writing big-character posters" (Article 45), giving impetus to the kind of outspoken wall posters that began to surface on Democracy Wall near Xidan Street at the time of Sino-US normalization.

The ideological struggle intensified greatly last spring when the *People's Daily* carried a set of editorials hurling attacks at the "Gang of Four" for suppressing the masses from "exercising their democratic rights." The official vindication of the Tian An Men Square riot incident of April 5, 1976, inspired a small band of human rights activists to stage rallies and paste up wall posters assailing China's bureaucratic system and its leaders.

The events surrounding Xidan Democracy Wall also touched off a series of demonstrations by young people demanding the right to return from the countryside to their city homes and seek employment, an issue the regime is still grappling with.

This brief movement in China's streets, dubbed the "Beijing spring," met with a conservative backlash from the Communist party, resulting in the arrest of 10 young activists accused of writing wall posters mocking Beijing's interpretation of and guidelines on "socialist democracy." (It is now illegal under the new criminal code to detain someone for freely expressing his political beliefs.)

China watchers construed the national crackdown on agitators and dissenters as the death knell for any significant improvement in China's human rights situation. But with the promulgation of the new laws the balance has once again shifted toward safeguarding individual rights against the arbitrary powers of the state.

In addition to hovering around Democracy Wall, people now carefully scan the pages of *People's Daily,* which now contains explicit accounts of government inefficiency and corruption. The most notorious recent case involves two ranking Politburo leaders, Wang Dongxin and Chen Xilian. The first, a former commander of Mao's bodyguard, has been accused of embezzling $4.64 million in public funds, while the latter is said to have participated in the execution of an innocent woman. The media campaign to expose government misconduct coincides with the surfacing of "complaint columns" that have begun to appear as regular newspaper features.

Adding further momentum to the recent activity was a recent commentary in *People's Daily* (July 24), criticizing the media for spreading false and fabricated reports and using superlative adjectives to bias the opinions of readers. "News must be completely true," said the editorial, "not a literary creation."

What this all suggests is that the leadership is acutely aware of the seriousness of the people's loss of faith in law and order and public morality. If the present trend is maintained, confidence in public institutions may be restored but it will become increasingly difficult for the PRC's administration to return to the days of large-scale violations of justice in the name of political purity.

INDISCRIMINATE OFFICIAL ACTS WILL BE CURBED

A state functionary who abuses his power, indulges in jobbery or vindictively makes false charges against people who have filed lawsuits, appealed or made criticism . . . who unlawfully deprives others of their freedom of religious belief . . . will be sentenced to . . . imprisonment for not more than two years.

—Criminal Law of the PRC
(Articles 146 and 147)

Last November, Amnesty International published a 176-page report outlining a process in China whereby suspected political dissenters are arrested, interrogated, tried, and convicted without access to a fair trial or safeguards against torture and maltreatment during detention. A key objective of the new criminal law, passed July 1, 1979, as explained by the former mayor of Beijing, Peng Zhen, who was also the first victim of the Cultural Revolution (1966–68), is to ensure that extortion of confessions through torture; assembling crowds for beating, smashing and looting; unlawful incarceration; and frame-up on false charges are all strictly prohibited. (Articles 136–138 of the Criminal Law of the PRC.) The people's courts, now reexamining the justifications underlying verdicts passed down during the Cultural Revolution period, have already exonerated the victims involved in 160,000 cases of determined false charges, frame-ups and wrong sentences.

The new criminal code delineates the definition of a counterrevolutionary crime so that people can no longer be imprisoned for harboring the "wrong" political attitude or because of their class background. However, in stressing that such an offense must be limited to an act aimed at "overthrowing the political power of the dictatorship of the proletariat and the socialist system" (Article 90), the law still allows for the persecution of those who incur official indignation by performing such acts as composing outspoken and critical wall posters.

The death penalty can only be imposed with the approval of the Supreme People's Court and will only apply to nonpolitical crimes such as homicide. If the culprit shows repentance during a two-year reprieve, the verdict will be commuted to life imprisonment.

To show Chinese citizens that due process and punishment will now be meted out to all lawbreakers, the official media has been publicizing the background details of a number of criminal cases ranging from murder to violating the marriage law. One involved the execution of a 43-year-old man found guilty of rape and murder after having a public and televised trial and appeal hearing. In accordance with the law, the death sentence was approved by the Supreme People's Court.

While designed to instill the Chinese people with a new sense of personal security, the legislation also serves the purpose of facilitating the achievement of Beijing's economic goals by stipulating financial and imprisonment penalties for all those who perpetrate crimes against the "socialist economic order" (Articles 116–130) and violate public security (Articles 105–115). Punishable offenses range from sabotage (including the destruction of natural resources), to all forms of corruption (e.g., smuggling, misappropriation of public funds, and forging).

To facilitate the resolution of economic disputes involving cases of "heavy political and economic

CHINA'S SIX NEW LAWS TO PROMOTE LEGALITY AND DEMOCRACY *

Law	Key Features
Criminal Law of the PRC (192 Articles) [1]	1. Brings back equality before the law promised in 1954 Constitution; safeguards fundamental rights of citizens stipulated in Chapter 3 of 1978 Constitution. 2. Defines criminal acts with fixed penalties. 3. Narrows definition of "counterrevolutionary" offenses to forbid arrest and imprisonment on political grounds and makes hard verifiable evidence sole basis for prosecution.
The Law on Criminal Procedure of the PRC (164 Articles) [2]	1. Describes role of the courts, procuratorates, and public security organs in enforcing new criminal standards. 2. Guarantees the accused the right to make a defense and have a fair and public trial. 3. Fixes strict time limits on court and police action to prevent indiscriminate detention; prohibits extraction of confessions through torture.
Electoral Law of the PRC for the NPC and Local People's Congresses of All Levels (44 Articles) [1]	1. Provides for the direct election of deputies to people's congresses at the county level. 2. Ensures a meaningful choice of candidates by requiring from 1/2 to 1 times more candidates than number of slots to be filled at county level; from 1/5 to 1/2 times greater for higher level elections.
Organic Law of the Local People's Congresses and Local People's Government of the PRC (42 Articles) [2]	1. Revolutionary committees will be replaced by new administrative bodies, "the local people's governments" and the positions of provincial governors, city mayors, county heads, and commune directors will be restored.
Organic Law of the People's Courts (42 Articles) [2] and Organic Law of the People's Procuratorates of the PRC (28 Articles) [2]	1. Revised versions of 1954 laws. 2. Upholds the independence of judiciary authority from political interference. 3. Cases involving the death penalty must be tried by the Supreme People's Court; the people's procuratorate must approve all police warrants for arrest.

* Each law was either approved [1] or adopted [2] at the 2nd Session of the Fifth National People's Congress, July 1, 1979. Each will come into effect on January 1, 1980.

losses resulting from a breach of contract or failure to carry out contracts conscientiously," intermediate courts at each administrative level are in the process of setting up separate economic divisions. According to Chinese authorities, this should "ensure the normal proceeding of economic activities and the fulfillment of state economic plans."

THE LAW ON CRIMINAL PROCEDURE: ALL CITIZENS ARE EQUAL IN THE APPLICATION OF THE LAW

Accompanying the resurrection of the individual's right to make a defense, entrust a lawyer, and have a public trial (provisions contained in the original 1954 Constitution), is new procedural legislation for implementing and enforcing the criminal reforms. Specifically, it spells out the functional relationship between China's three judiciary organs, and public security organs (police), the procuratorates, and the people's courts. Each one must base itself on facts, and use the law as the yardstick. "Evidence can be used as the basis of a judgment only after it has been verified."

For criminal cases the public security organ is in charge of investigation, provisional apprehension, and inquiry; the people's procuratorate role is to approve police warrants for formal arrests, and determine within one month whether or not the evidence is sufficient to require prosecution proceedings; the people's courts are responsible for trying cases and passing sentences. While almost all China's court cases are tried solely by a presiding judge, courts in the cities have begun to use people's assessors (juries) in both civil and criminal cases.

In a subtle indication that the influence of party officials over the judiciary will be curtailed in the future, Peng Zhen told a group of representatives from all three organs that the law is more authoritative than "a certain leader or party committee and can only be revised according to definite legal procedures carried out by the NPC or its standing committees." At the same time, though, he reasserted the leadership prerogatives of the party, and while now theoretically conceivable, it is unlikely that the judiciary will challenge the party's actions or take bold steps without its approval.

The most important provision contained in these two laws stipulates that people's procuratorates and courts should administer justice independently, subject to no interference from other organizations or individuals. In order to uphold such independence, both court officials and procurators have been freed from the grip of local government and party organizations and are instead now responsible to the people's congresses—which will elect local procurators.

In addition, the relationship between higher and lower procuratorates has been changed from one of direct supervision to that of leadership. The stated aim is to decentralize power so that local organs of administrative justice will be held accountable to the people's congresses at each corresponding level. While China's new laws do not institute the rule of law in the Western sense of a system of checks and balances, they do go a long way in curbing the unfettered power of politicians and bureaucrats and assuring a much-abused and skeptical population that it will not be accused on the basis of hearsay, or without evidence and access to a fair and public trial. It remains to be seen whether these impressive reforms on paper will be implemented independently and impartially.

NEW LAWS RECEIVE MULTIMEDIA TREATMENT

In an effort to rally popular support behind the new legislation, a massive publicity drive utilizing all channels of the media is underway across China. Leading newspapers have published the full texts of the laws together with easily understood explanations. Teach-ins and telephone and radio conferences are being held to answer people's questions about legal terms while party cadres and police officers will be required to take a three- to six-month paralegal course to familiarize themselves with the most relevant provisions of the criminal laws. By running spare-time training courses, China's small legal community hopes to extend training to every judicial worker at or above an assistant judge's level within three years.

The greatest practical stumbling block, though, is the absence of a trained contingent of legal professionals. The Cultural Revolution witnessed the abolition of the procuracy, the termination of legal education and scholarship, and even the burning of legal books and treatises. A leading Chinese lawyer, trained at Harvard, estimates that the country will need over 200,000 legal personnel, of which 10,000 should be lawyers, in order to put the two new criminal laws into effect. But since the Communists gained power in 1949, Beijing Institute of Political Science and Law has trained only 8,000 judges, prosecutors, and lawyers.

Nevertheless, Beijing seems determined to overcome these obstacles. In April a new bimonthly journal, *Studies in Law (Faxue Yanjiu),* was launched for students of political science and law, and the four institutes of politics and laws, disbanded during the Cultural Revolution, have been restored over the past two years, along with similar departments in universities and middle schools. The Ministry of Justice, abolished in 1959, has been restored under Wei Wenbo, to set up and manage legal institutions.

With plans to enroll only 1,855 undergraduates and 100 postgraduates in law studies this year, and to train 5,000 paralegal workers annually, China has an arduous task ahead in developing a modern and effective legal system. 完

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Economy

China's Alleyway Entrepreneurs Get a Promotion

With about 20 million unemployed in the PRC, the Chinese government is taking a second look at collectively owned enterprises. These are described in China as "Yugoslav-type" enterprises and were dubbed "capitalist vestiges" just a few years ago. But whatever their ideological pedigree, they provide the PRC with sorely needed restaurants, furniture factories, barber shops, door-to-door repairmen, and consumer goods of every description, from toys to embroidered handkerchiefs. Had it not been for the essential goods and services collectives provided, leftist factions in the government might have long ago eliminated the sector entirely.

Unlike state-owned enterprises, which are considered a higher form of socialist ownership "by the whole people," collectives are responsible for their own profit and loss. According to the government's lexicon of ownership types—which only recognizes state, collective, and private ownership—the first two are considered "socialist" in nature, while private enterprise is equated with "capitalism." What remains of legitimate private enterprise in China typically involves vegetable or handicraft production by family members, activities described under Article 5 of China's 1978 Constitution as "individual labor involving no exploitation of others." These private businesses are not sponsored or licensed by some recognized state authority—unlike collectives—nor do they appear to pay taxes since China has no tax on individual incomes.

The total number of urban collectives of all types is probably around 200,000 units, of which 56,800 engage in consumer goods production, the *People's Daily* said on August 4. They employed 20.5 million people in 1978, or 21.6 percent of China's total urban industrial labor force, according to State Statistical Bureau figures released on June 27. This compares with a figure of 17 million people in collectively owned industries in rural areas as of January 31, 1978, Xinhua reports.

Varying in size from several thousand workers to only a handful, collectives are located in residential courtyards, alleyways, or on the premises of large factories where they do processing, painting, or sanding. Many consist simply of loosely organized groups of licensed street vendors supervised by state stores or "neighborhood offices," the most common form of ward councils in Chinese cities. These "service collectives," as they are called, have lately blossomed in every manner of activity, from hot tea vendors at railway stations to bicycle messenger services, which run errands for offices, army units, and factories, according to a July 28 Beijing Radio report.

Housewives make up around 80 percent of the collective labor force, and until July only the elderly, sick, or disabled were allowed to constitute the remaining 20 percent. And until early August, wages were not allowed to exceed those of state-owned enterprises, which are currently ¥60 ($38) per month on the average, Xinhua said.

Creating Jobs While Battling Inflation

The government's recent encouragement of collectives is motivated by the need to reduce both inflation and China's alarming rate of unemployment. In May, Vice Premier Li Xiannian acknowledged in a secret party work report that 20 million people, or 5 percent of China's total labor force of 400 million, are now jobless, according to the June 15 issue of the Hong Kong monthly, *Ming Bao*.

The official unemployment figure according to an August 17 article in *Beijing Review* by Xue Muqiao, director of Beijing's Economic Research Institute, is "more than 7 million." However, the Chinese media only began to mention the problem for the first time in July, preferring to address the sensitive issue of unemployment as "people awaiting employment." On July 26, the government also revealed that inflation had become a menace, and admitted that only a rapid surge in the availability of consumer goods and services would lick the problem.

China's 1979 draft budget presented to the second session of the Fifth National People's Congress on June 21 promised to create 7.5 million new jobs this year. But this modest effort cannot absorb the 8 million high school students who reportedly graduate this year, of which fewer than 300,000 will go on to institutions of higher learning. Neither can it absorb the 8 million former government employees who lost their jobs in the Cultural Revolution (1966-69) and are awaiting reinstatement, nor the huge contingent of youths who joined the mass exodus of about 12 million high school graduates sent to the countryside after 1965, many of whom have returned illegally to live with urban relatives and friends.

China's Message to the Unemployed: Get Organized

These mounting difficulties forced the government to reconsider the role of collectives, however unattractive the idea may have been to old-guard radicals. Collectives are seen as the best self-help method to ease both unemployment and inflation, since entrepreneurs could set up low-cost enterprises without substantial state aid and rapidly place consumer goods into circulation to mop up excess purchasing power.

In Shanghai, collectives require only a few hundred yuan per worker to establish, according to an August 5 Xinhua report, and the city's collective work force has jumped from 330,000 people in 1977 to 1 million today. The report notes that these developments stand in marked contrast to state-owned endeavors such as the Baoshan steel project, which will cost at least ¥3 billion ($1.9 billion) over

Credit: Walter L. Keats

An enterprising Chinese sets up a free-market clothes stall.

seven years, and eventually employ only 30,000 workers at a cost of ¥100,000 ($63,300) per worker.

Collectives may also draw upon private savings deposits, which totaled ¥18.4 billion ($11.6 billion) as of June 1979, according to a July 23 Xinhua report, or ¥163.1 ($97.0) per urban working family. About half of these funds are believed to be in time deposits of one year or less.

Even a camera is enough to start a collective enterprise, apparently. The seven young photographers taking snapshots of tourists outside the Beijing Hotel reportedly make ¥1,500 ($950) per month altogether, pay ¥1,185 ($750) in costs per month, and keep ¥1.5 (95 cents) per individual per day, an August 2 article in the *Ta Kung Pao* revealed.

Private venture capital from China's former capitalists is also available. Shanghai's *Wen Hui Bao* reported in August that 600 former capitalists set up a multimillion yuan construction company to build apartment houses and renovate office buildings, using the interest returned to them by the government for properties nationalized two decades ago. A story on the same company in the August 24 *Beijing Review* said that the new apartments will be sold to overseas Chinese or their Shanghai relatives "as well as to the city's former capitalists who have housing problems." There were 300,000 capitalists in China still receiving interest prior to September 1966, according to the late Sinologist Barry Richman. Many of them have recently had their interest payments restored under Vice Premier Deng's administration.

The 10-Point Charter

China's new directives on collectives were passed down in uncompromising language: "From now on," the government announced on August 9, "the main source of job opportunities will not be in the state-owned sector of the economy, but in the collectively owned sector."

The specific policies are contained in ten regulations now being debated in several provinces, and already implemented in Zhejiang and Heilongjiang Provinces, according to recent radio broadcasts. The regulations safeguard the autonomy of collectives, and call a halt to all discriminatory practices against them. According to an August 24 Xinhua report, the regulations are:

1. Workers, staff, and party cadres in collectives and state-owned enterprises "will be treated equally." Some areas have gone further by passing supplementary rules. In Beijing, almost anyone may now join a collective—including youths who returned illegally from the countryside—and not only "housewives, unoccupied persons, and other sick or disabled students" as before, the *People's Daily* recently affirmed. Moreover, time on the job in collectives from now on will count toward apprenticeship in Beijing's state factories.

2. Collectives can set their own wages. "On the basis of . . . the success or failure of management, the wages and welfare treatment of collectively owned enterprises may be lower than, equal to, or higher than those of state-owned enterprises for the same type of work or for the same trade."

3. "Food supplies, labor insurance, and clothing material should be equal for workers of large and small collectively owned enterprises and state-owned enterprises doing the same type of work. Medical allowances and separation pay may be determined by the enterprises themselves. . . ."

4. "New collective enterprises will be exempted from taxation for a specific period of time . . . according to regulations of financial departments."

5. "The right of ownership, decision, and operation and arrangement of collectives should be respected and safeguarded." This clause is probably designed to forbid officials from expropriating their profits, or from arbitrarily converting collectives into state-owned enterprises for the purpose of levying higher taxes. Both practices were commonplace.

6. Party cadres in collectives must henceforth "be elected by the masses."

7. Competition between collective and state enterprises should be promoted "in order to encourage enterprises to improve operations and management."

8. "All trades and occupations" are called upon to help collectives, although the nature of their assistance is not mentioned.

9. Collectives must have guaranteed access to certain supplies rationed by the state that were previously distributed to state enterprises only; conversely, some of the output of collectives will be marketed through state channels.

10. New "administrative organizations" will be set up to supervise collectives, but these have not been enumerated as yet.

Opposition to Collectives

The detractors of collectives no longer voice their opposition to collectives along political lines, but couch their criticism in economics. A common misgiving is that collectives are inefficient and backward technologically, a charge with some merit since most collectives are too small to realize economies of scale, and their threadbare capital endowment is a constraint on productivity.

But there is also an undercurrent of fear voiced in the Chinese media that collectives may cut into the profits of state enterprises because they are too efficient. In one recent case, the Second Bureau of Commerce in the city of Hangzhou refused to sell an ice-making machine to a collectively run cold-drink stall on the grounds that it was taking business away from the bureau's restaurant in the same vicinity, according to Xinhua. —JS 究

Economy

China Gives Factories a Freer Hand

New State Council regulations have increased the freedom of China's state enterprises, bringing them more into line with the freewheeling management style of collectives—and authorized them to deal directly with foreign companies. As the following article shows, the reforms create a legal environment more hospitable to joint ventures.

A recent directive from China's State Council calls for relaxation of controls on state-owned enterprises. For the first time since the liberal 1950s, state factories may be allowed to go outside the state supply network if that is the only way they can obtain supplies, satisfy customers, and make a profit.

Even more significantly, state enterprises are encouraged to participate in foreign trade talks and to sign contracts directly with domestic or foreign companies. This raises the question as to who will control commodity prices, Beijing or the provinces, if these policies become widely accepted? In the case of tungsten, for example, will Guangdong Province or Fujian, both major world tungsten suppliers, manipulate China's tungsten pricing and upset world markets in an effort to maximize foreign-exchange earnings?

The new rulings are experimental, and affect only a few hundred enterprises which were placed under the new system last October. Far from being a random sample, the enterprises selected were for the most part "Daqing-type" industrial leaders, which indicates how anxious the government is that the experiment succeed.

The directive is outlined in five State Council documents issued in mid-July. The first is entitled "Some Regulations to Expand State-Run Industrial Enterprises' Administrative Authority," according to a July 28 Xinhua announcement, and is designed to increase factory autonomy in all spheres.

Under new cost-accounting rules, factories enjoy greater control over their revenues but bear greater responsibility for their losses as well.

"In the past, enterprises did not have any kind of financial power," Guangzhou Radio noted in an August 15 discussion of state factories. "If they wanted to build a toilet or to repair a chimney, they had to reach out everywhere with grasping hands while the higher authorities always put off giving approval for six months or a year."

As an example of how to proceed, the *People's Daily* carried an ad from the Ningjiang Machine Tool Plant in Sichuan, one of the 100 plants in Sichuan participating in the nationwide management experiment. To the plant's astonishment, the advertisement not only cleaned out the glut of automatic machine tool inventories that had plagued the plant for many years, but netted about four years' worth of new business.

State factories may rent or sell fixed assets which do not contribute to their profits. The reforms also permit managers to rate and promote workers according to the principle of "more pay for more work," and gives enterprise party committees the authority to appoint or dismiss lower- and middle-level party cadres, action that once required higher-level approval.

The second document is entitled "Regulation on the Percentage of Profits Allowed to Be Retained by State-Run Enterprises." It permits state enterprises to keep a share of the foreign exchange earned from exports. The Wuhan Heavy Machine Tool Plant, for example, reportedly keeps 30 percent of its foreign exchange earnings and has boosted its exports to 5 percent of total output.

Documents three, four, and five concern financial practices. The depreciation funds of state enterprises, now around 4 percent of total fixed assets, are increased. This will facilitate capital replacement. The fourth document revises the tax rate on fixed assets, while the fifth stipulates that funds used by state-run enterprises are to be extended and managed by the People's Bank of China in the form of loans.

These reforms will be implemented nationwide after the State Economic Commission and Ministry of Finance draft accompanying legislation, according to a July 28 Xinhua report. The five documents enunciate general principles only, judging from the summaries of their contents in the Chinese press, hence they are similar in their brevity and lack of detail to China's joint-venture law published on July 8.

China may have been slow to follow up its joint-venture law with detailed codes on foreign investment, tax policy, and profit repatriation, owing to the fact that China still lacks an adequate legal foundation with respect to the management of domestic industry. The delay is probably in the best interests of foreign firms contemplating joint ventures in China, since their operations are likely to go more smoothly under legal ground rules which dovetail with those of their Chinese suppliers and joint-venture partners.

These changes seem to introduce into the industrial sphere an economic philosophy long established in the agricultural sector. Managers are being told that if they exceed state quotas, the government will turn a blind eye to whatever methods are used to dispose of the remainder of production, even including practices once described in Cultural Revolution slogans as "putting profits in command."

The similarity with agricultural policy is striking. Just as above-quota pig, food grain, and vegetable oil production may be sold in rural free markets for profit, now controls are being eased on the marketing of industrial goods produced in excess of the state plan. While it legalizes direct business deals with factories, however, the policy also runs the risk of increasing the incentive for factories to bypass state channels if the price is right.

In late July the State Council instructed all provinces, cities, and autonomous regions to place even more enterprises under the freer regulations. —JS 宪

Population

Looking Out for Number One

"By 1985 the planned figure for the nation's total grain output will be 400 million tons, or an increase of 95 million tons over that of 1978, a target that can be achieved only after tremendous efforts. But, if the population increase remains unchecked, at the present natural rate of growth, there will be 84 million more people by then. If everyone is to get 250 kilograms of food grain a year, then there will have to be an extra 21,000 million kilograms of grain. This means that they will consume 22 percent of the total increased grain output. Therefore, it is imperative to resolutely hold in check the population growth." *Beijing Review,* No. 28, July 13, 1979.

The future looks grim according to the analysis of delegates attending China's recent two-week-long session (6/18–7/1) of the Fifth National People's Congress, the PRC's highest state organ of national representation. Bluntly admitting for the first time that a huge population can be more of a liability than an asset as China struggles to raise annual per capita food consumption—less today than in 1957—deputies to the NPC drafted a new law on birth control to promote the spread of one-child families.

But on closer inspection, the figures from the NPC given in the *Beijing Review,* suggest that China's planners may be finagling figures to produce a desired effect. Using data recently published by Beijing (see *CBR* 6:4, p. 42) China's national per capita grain consumption was 318 kg. in 1978, based on a year-end population of 958.23 million and 1978 grain output of 304.75 million metric tons.

In 1985, using China's own projections (84 million additional people and 400 million tons targeted grain output), per capita grain consumption will be 384 kg./capita: In other words, the targeted 31.1 percent increase in grain output 1978–85, should actually be more than sufficient to supply an 8.8 percent increase in population in the same period, even if some portion of grain production is not for human consumption.

Beijing's projection, quoted above from the *Beijing Review,* is based on a 1.2 percent natural increase, which means the billion level would be reached in 1982. By the year 2000, at the same rate, China would have 1,246 million people, 288 million more than in 1978. But if China achieves its target growth figures, by the year 2000 it would only have 96 million additional people.

China's new regulations, first promulgated at a January worker conference on population control, represents the most intensive and rigorous Chinese family-planning program to date. Previously, Chinese couples were instructed to strive for two-child families. Not only has the one-child family been elevated to the officially cited goal but such ideal couples are to be awarded income bonuses, health-care subsidies, higher pensions, and priority in the allocation of city housing and private vegetable plots in the countryside. Meanwhile, families that choose to exceed the two-child norm will not receive ration coupons for any commodities other than staples and will have 10 percent of their monthly wages taxed as a sum for welfare payments.

According to the strongly expressed statements of Vice Premier Chen Muhua, head of the State Council's National Group on Family Planning, curbing population growth is a "strategic task and matter of top priority." The immediate objective is to bring the natural rate of population increase down from 12 per thousand in 1978 to 10 per thousand by 1980 and to 5 per thousand in 1985 (in 1971 it was 23.4/1000).

Official Chinese statistics reveal that nearly thirty percent of the 17 million infants born in 1978 represented the third or fourth child of a family. To achieve the 1980 growth-rate target, China's child-bearing couples must produce no more than 2.5 million "third children" a year, or half of the 1978 figure. If the third-child birthrate drops to this level and the proportion of one-child families gradually increases, Chinese planners believe that a 1985 growth rate of 0.5 percent can be achieved. Beijing is aiming for zero population growth by the year 2000.

The current hard line on population control is not new to China. Since the mid-1950s, Beijing has supported family planning through delayed marriage and the distribution of free contraceptives, but the program's effectiveness has varied according to the swings of the political pendulum and China's leaders today concede that population policy was not properly implemented until the beginning of the 1970s. A recent article in *People's Daily* (July 13) blamed past failures on "the more people, the better" theory decreed by Chairman Mao Zedong in earlier years and rehabilitated the views of Professor Ma Yinchu, an economist, now 98 years old, who was purged in 1957 for advocating administrative measures to enforce family planning.

As noted above, Beijing has issued a series of statements explicitly analyzing the economic implications of rapid population growth, especially in terms of its adverse impact on employment prospects and food supply.

According to officials in Shandong Province, with a population of 71.5 million in 1978, Shandong's urban centers are experiencing difficulties in arranging jobs for young laborers now entering the work force at a rate of 1.5 million a year. Shanghai, recently the scene of three successive days of peaceful unemployment demonstrations, has an estimated 400,000 young people, aged between 18 and 22, out of work. But the problem is not just confined to China's major cities. The Shandong daily, *Dazhong Ribao,* pointed out in an August 10 editorial that increased farm mechanization means a gradual reduction in the required number of agricultural laborers, further aggravating the problem of settling and employing new laborers in the rural areas.

The delegates to the NPC, focusing on the disparity between population and production, concurred that if China's grain output continues to lag behind the annual average rate of population increase (2.4 percent over the past 22 years versus 1.7 percent for grain output) there will be serious problems in providing the people with basic necessities and in creating an economic climate offering jobs for the growing number of people educated and trained for them.

China's statisticians may have been tending to overemphasize the problems—the average rate of population increase over 22 years does not reflect the present situation. While the problems are very real, China's family-planning program has proven to be well organized and effective. And with such high priority assigned to family limitation efforts, China's rate of population growth should not be the primary factor in future economic slowdowns.

The highly politicized family-planning regulations, endorsed by Chairman Hua Guofeng in his report on the work of the government (6/20), are being aggressively implemented (sometimes with the threat of physical coercion) by local cadres with an eye out for party approval and promotion. Consequently, one US analyst believes that party officials are overestimating the results of birth planning efforts in their reports to state statisticians. Similarly, peasant households may be underreporting deaths in order to retain the ration coupons of deceased family members.

Vigorous birth control measures are being adopted in varying degrees of detail by each province but they all tend to be similar in nature and include the following incentive structure of rewards and penalties:

- Couples who marry late, produce only one offspring and thereafter practice contraception will be awarded a "planned parenthood glory coupon," which will ensure priority for their child in school enrollment, medical treatment, and hospitalization. (Single children in Guangdong Province will receive free education and health benefits until age 18 at a cost to the government of up to 600 yuan.)
- City families will receive a monthly bonus of at least 5 yuan ($3.2) for expenses until their child turns 14 years old. The city of Tianjin, claiming that 80 percent of its child-bearing women practice birth control, has already awarded 28,000 couples with one child a yearly subsidy of 60 yuan ($38—the cost of a well-made radio) for taking the one-child pledge.

Families that stop at one offspring will receive the same urban floor space as couples with two children. Moreover, the single child will be granted special status involving preferential treatment for enrollment in China's crowded day-care centers, priority in manpower recruitment, and exemption from "rustication"—being sent down to the countryside to engage in manual labor.

- Village parents who adopt the one-child norm will also benefit through an annual income bonus of 400 work points and the housing space of a two-child standard. From the time of birth the single child will receive an adult's food ration and be awarded 1¼ shares of land when it comes to allocating private plot areas.
- To counteract the traditional tendency for peasants to bear many children to guarantee a comfortable and secure old age, the state will continue to provide retirement benefits at 75 percent of pre-retirement salary for workers having 20 years service, with a bit extra thrown in for model one-child parents.
- Urban couples will find themselves deprived of 5 percent of their total annual income if they refuse to take the two-child pledge, while peasant families will see 5 percent of their annual work points subtracted in the calculation of income. The deduction is raised by 1 percent for each additional child after three.
- Health-care subsidies will be retracted, forcing couples to dip into their savings to cover the cost of pregnancy. Moreover, paid maternity leave—56 days in the city and 40 in rural areas—will not be forthcoming to the mother expecting a third child. The additional child will not be entitled to public funds for welfare expenses or be permitted to participate in cooperative health programs.
- Other penalties, not to mention the psychological cost of social scorn and ostracism, include depriving the extra child of coupons for commodities or subsidiary foodstuffs, except cloth coupons, and regular grain rations after age 14 and awarding him a smaller than average private plot.

Implementing the guidelines could prove problematical. Some provinces already claim to have surpassed the 1980 goal of ten births per thousand. Sichuan claimed a natural increase rate of 6.06 per thousand in 1978, but some provinces still have natural increase rates close to 20 per thousand.

Meanwhile, Chinese families are bound to feel sharp contradictions between current efforts to restore some measure of legality and individual freedom, and the new population control campaign which is being launched with the same zeal and determination that has characterized Chinese life for the past three decades. —KAB 笼

[1] These would be levied against parents having a second child after being rewarded for having only one, and those who bear a third or additional child six months after the enactment of the regulations.

CHINA'S POPULATION PROJECTIONS 1979-2000

	Present Rate		Targeted Increase	
Year-end	Total (millions)	Percent Annual Increase	Total (millions)	Percent Natural Increase
1978*	958.23*	1.2*	958.23*	1.2*
1979	969.73	1.2	968.77	1.1
1980	981.37	1.2	978.46	1.0
1981	993.14	1.2	987.26	0.9
1982	1,005.06	1.2	995.16	0.8
1983	1,017.12	1.2	1,002.13	0.7
1984	1,029.33	1.2	1,008.14	0.6
1985	1,041.68	1.2	1,013.18	0.5
2000	1,245.78	Av. 1.2	1,054.45	0.0**

* Actual, excluding Taiwan Province.

** This figure is based on the assumption of a diminishing rate of growth from 0.5 percent per annum in 1986 to a zero population growth rate by the year 2,000, a goal announced by the government.

Agriculture

Record Harvest, Less Foreign Grain

China is seen as downgrading its needs for international wheat during the 1979–80 crop year in light of its two years of favorable wheat harvests and soaring world wheat prices brought on by forecasts of a severe grain shortfall in the Soviet Union and Eastern Europe. Moscow is expected to spend $2.2 billion on at least 17 mmt of US grain (with a need for an equivalent amount from other sources) this year to compensate for its predicted grain crop of 185 mmt. China's total grain imports for the 1978-79 marketing year amounted to 11.9 million metric tons of grain, of which US food exporters supplied 5.7 mmt.

While the PRC is still in the process of negotiating its purchases for the 1979-80 marketing year with its two traditional suppliers, Canada and Australia, USDA officials estimate that China will contract for only 10 mmt during this period, down from 10.5 mmt predicted a few months ago. It is likely that the PRC will import at least half of its upcoming foreign grain from the US.

This year China has reaped an unexpected bumper summer harvest of 64.9 mmt of grain, 5.5 mmt above the figure given for the early harvest of 1978 and enough to achieve Beijing's 1979 grain production target of 312 mmt. According to the official *People's Daily* (August 15), favorable weather conditions throughout the fall could boost annual output even higher to a record-breaking level of 325 mmt, 20 mmt ahead of what China's farmers harvested in 1978.

With the Soviet Union needing mountains of US grain to feed its people, American food exporters are relieved that China and India are not also facing crops failures. Such an occurrence could result in a global famine disaster.

Meanwhile, US agricultural experts regard Beijing's high grain estimate as optimistic and see the lower production figure as closer to the mark. China's early rice-growing area, covering 13 provinces, has been cut back by 600,000 hectares to make room for more wheat and some regions have shifted from double-crop rice to single-crop rice, suggesting a below-average rice harvest for 1979.

The decline in rice output, however, may be offset by the registered improvements in both per-unit yield and total output of winter wheat, accounting for 85 percent of yearly wheat production, while the 9.4 percent increase in the summer grain harvest keeps the PRC well above the growth rate required to reach the 1985 grain target of 400 mmt.

Earlier this spring, Beijing was predicting a reduction in crop yields due to a wave of natural disasters, including cold spells, droughts and windstorms, that hit the country when the "rape was in flower, and the wheat jointing." But good moisture conditions removed the cause for pessimism and resulted in 12 major grain-producing areas—those with total yields above 1.5 million—reporting harvests between 40 and 80 percent higher than previous years.

State farms in Heilongjiang Province brought in 1.25 mmt of spring wheat, while Hubei Province held a prize-awarding ceremony in mid-August to commend 155 communes for harvesting 3.5 mmt of summer grain, a 15 percent increase over 1978. Jiangsu Province, on China's eastern coast, received the greatest amount of publicity for producing 2.3 million hectares of over-wintering wheat and barley at an average per-hectare yield of 3.48 tons, representing China's all-time high for the average per-unit yield of wheat.

The decisive factors underlying such success stories have been large-scale farmland improvement and the building of irrigation facilities, according to Chinese authorities. The PRC's irrigated area has increased from 13 million hectares in 1949 to 46 million hectares today, covering close to 45 percent of total cultivated land.

The extensive use of improved wheat strains and chemical fertilizer, now applied at an average of 300 kg. per hectare, have also caused significant strides in agriculture, while individual incentives in the form of a 20 percent increase in state purchase prices and a more liberal approach to private plots have motivated China's farmers to grow more crops.

But at the same time, China's planners stress that agriculture has not developed at a sufficient rate to support the PRC's huge population. The major starting point for accelerating production and restoring balance lies in enlarging agriculture's slice of the state budget, but Beijing is not overlooking the importance of human capital. According to a recently released Central Committee document on agricultural policy, "only if the positive spirit of the peasants is mobilized can state support attain expression in improved results."

—KAB 完

STATUS OF US AGRICULTURAL EXPORTS TO THE PRC (SEPTEMBER 1979)

Commodity	Marketing Year	Amount (metric tons)
Wheat	June 78–May 79	2,679,100
	June 79–May 80	1,054,500*
Corn	Oct. 78–Sept. 79	3,020,100
Soybeans	Sept. 78–Aug. 79	141,900
Soybean Oil	Oct. 78–Sept. 79	60,600
	Oct. 79–Sept. 80	20,000*
Cotton	Aug. 78–July 79	1,187,200 bales
	Aug. 79–July 80	430,700*
Total Grain	1978–79	5,699,200

*Indicates quantity contracted for as of September 5, 1979.

Trade

When the Chinese Suspend Your Contract...

The last ashes have finally settled from the explosion that knocked the wind out of the China trade euphoria in late February, when the Chinese notified a number of Japanese trading firms that they had denied approval to some 22 contracts for 29 plants worth over $2.6 billion signed since December 16, 1978.

As the smoke clears, only one contract out of 29 appears to have been fatally injured: a $76 million deal for a 300,000-ton ethylene plant that was to have been built by Toyo Engineering near Beijing. Yet Toyo insists that this contract, one of four ethylene plant contracts Toyo signed in January, has not been canceled; rather it is "pending," although negotiations are not continuing.

C-E Lummus of Bloomfield, New Jersey, had agreed to provide its proprietary ethylene process, DPG process, and process computer technology for the "pending" plant. Lummus isn't hurt too badly, though—it will still be providing these technologies for the three other plants Toyo contracted to build, the contracts for which were all reinstated in June and July.

Why this plant alone was not reinstated is unclear. Some China trade watchers in early June speculated that it was because of a lack of infrastructure and/or of upstream raw materials such as crude oil and naphtha. Toyo denied this, saying that the reason was China's lack of foreign exchange, the official reason the Chinese gave for suspending all the contracts.

All 28 other contracts—totaling over $2.5 billion and including six projects related to the Baoshan steel complex, one aluminum smelter, three hydrocrackers, and 18 petrochemical plants —were reinstated. (See chart for details.)

The six connected with the Baoshan steel complex—which is being built near Shanghai by Nippon Steel Corporation—were settled by switching from a cash basis, as called for in the original contract, to a deferred payment basis, with payments over five years at an annual interest of 7.25 percent. Both the original and the final settlement called for payment half in dollars and half in yen, a compromise between the Chinese desire to pay back in dollars and the Japanese preference for repayment in their own, stronger currency.

All other contracts, except the "pending" ethylene plant, were reinstated according to the original contract conditions: payment in cash in US dollars.

Some reports say the Chinese asked for deferred payment on these also, but the Japanese firms would agree to it only if the contract prices would be raised approximately 6 percent.

US companies whose technologies are integral parts of these reinstated contracts include: Union Oil of California, Diamond Shamrock, Amoco, and Texaco, in addition to C-E Lummus.

The most significant near-victim, though, was Chinese credibility. More than two harrowing months went by before the Chinese notified the Japanese in early May that they wished to renegotiate the contracts. The suspension of the Japanese contracts was, to foreign business people, the most distressing of China's "readjustment" decisions and a chilling example of how China deals with its largest trading partner.

Only when news began to leak out to the press in June that China had agreed to go ahead with different individual contracts did spirits begin to rise about the future of big plant contracts with China. But even then, cynicism fed on reports that two Toyo ethylene plants were canceled (one contract for a Nanjing plant was later renegotiated and reinstated) and the fact that the Japanese banks had been squeezed into offering China a loan with an interest rate at a very narrow margin above the LIBOR (London Interbank Offer Rate). When the contracts were first frozen in February, many veteran China traders speculated that the action was a ploy to force Japanese banks into ever-finer interest rates. While it is clear that China's readjustment of priorities was more profound than that, most of the suspended Japanese contracts were reinstated within a month of the basic agreement on the May 18 loan.

The reason the Chinese gave for the suspension of the contracts was a lack of foreign exchange. According to one report, after the foreign trade corporations calculated how much money would be needed to pay for these contracts, the State Council asked the Bank of China if foreign exchange reserves were sufficient to cover them. The BOC, which had not even been contacted about some of the contracts, sent a memo saying it might not be able to supply all the funds requested. At that point, the State Council suspended all ongoing negotiations and ordered a review of all contracts that had already been signed, as well as a review of all other capital construction projects in China. When the Chinese discovered that foreign exchange reserves were indeed sufficient to carry out the contracts, they then called the Japanese to Beijing to renegotiate.

One US observer in Beijing believes that a faction within the Chinese leadership made political capital out of the Bank of China's memo in order to set back the massive importation of foreign plants and technology.

The Japanese companies requested to renegotiate the contracts with Techimport as a single group, using the Japan-China Association for Economy and Trade as the negotiator. Beijing refused, thereby undercutting a potential source of Japanese bargaining power.

Now that the smoke has cleared, several questions remain for companies interested in selling complete plants and technology to the Chinese.

1. Finance. Was it a deliberate ploy? If so, should American and other Western banks fear the same treatment when their client companies become more deeply involved in business with China? Better data from Beijing, more comprehensive knowledge of China's plans and needs—so that more projects can be realistically assessed by foreign suppliers—and better communications would all help to increase confidence that Beijing knows how to keep its house in order. This is especially important as the size of China's technology imports grows.

2. Confusion. One of the reasons often cited for the Chinese reassessment of the contracts is that China's foreign trade corporations (in this case Techimport) and ministries were signing large contracts too hastily, without clearing them with the Bank of China. The Chinese have since upgraded the role of the Bank of China in an effort to plug this loophole. But with regional and local authorities now being granted permission to keep foreign exchange, will the Chinese be able to avoid this problem in the future? Should foreign companies take it upon themselves to check things out with the Bank of China to make sure they're covered?

3. Inadequate infrastructure and feedstocks. If this indeed was a serious concern in the case of several of the contracts, should foreign firms make an extra effort to check out whatever such potential inadequacies might exist before signing a contract? China should make its industrial structure better known and less mysterious to help preclude infra-structure problems.

4. Contract terms. The Chinese were able to "suspend" already-signed contracts because the contracts contained a provision requiring approval of both governments. Ironically, this provision was first inserted into contracts several years ago at Japanese insistence, probably because they felt they needed approval from MITI (Japan's Ministry of International Trade and Industry) as well as from China's State Council. Many US companies also consider this type of clause necessary because of US export control regulations.

SUSPENDED JAPANESE CONTRACTS—AND THEIR FATES, SEPTEMBER 1977

Contractor Date of original contract	Product	Annual Capacity	Technology	Location	Value (million US $)
Reinstated with contract change:					
Nippon Steel Corp. (12/23/78)	Integrated steel plant	3 million tons by 10/81 6 million tons by 1/83 10 millions tons ultimately	—	Baoshan, near Shanghai	$1,106.9
Including:					
1. C. Itoh and Co.	Blast furnace at $151.9 million				
2. Mitsubishi	Coking oven at $268 million				
3. Mitsui and Co.	Iron mill at $179.5 million				
4. Mitsui and Co.	Steel mill at $228 million				
5. Itoman and Co.	Quay wall factory at $21.6 million				
6. Nissho-Iwai Co.	Cogging mill at $257.9 million				
				Settlement: altered from a cash basis in US dollars (50%) and Japanese yen (50%) to deferred payment in US dollars (50%) and Japanese yen (50%)—payment over five years at 7.25% per year.	
Reinstated according to original contract conditions: cash basis in US dollars:					
Asahi Chemical Industries, Chori Co. (12/27/78)	Nylon 66 tire cord	13,000 tons	NA	Pingdingshan in Henan	$70
Chiyoda Chemical Engineering and Construction, Wako Trading (12/78)	Hydro-cracking plant	light oil: 700,000 tons pitch: 250,000 tons	Union Oil's hydrotreating	Nanjing	$46
Chlorine Engineering Corp. (subsidiary of Mitsui) (12/78)	Caustic soda, chlorine	200,000 tons	Diamond Shamrock's caustic purification, chlorine recovery, diaphragm-cell	Shengli	$101
JGC, C. Itoh and Co., Toko Bussan (12/78)	Two hydrocracking plants	800,000 tons each	Union Oil's Unicracking	Maoming in Guangdong, Nanjing	$70
JGC, Asahi Glass, Asahi Electro-chemical, Kashima, Mitsubishi, Godo Sangyo (12/78)	Epichlorohydrin, synthetic glycerin	15,000 tons each	Kashima	Shengli	$49
Kanebo, Hitachi, Marubeni, Toko Bussan (12/78)	Polyester polymerization	200,000 tons	Kanebo	Shanghai	$82

Now that the Chinese have invoked this clause, is there any way for US companies to protect themselves against the same experience?

One way is to ask the Chinese what the procedures for government approval are and how long it will take, and then write these conditions into the contract. The Baoshan contracts contained a provision giving each government 60 days to approve or withhold approval. The other 23 contracts were also denied approval within 60 days of the cutoff date—December 16, 1978. It is believed that they too contained the 60-day clause.

Some of the contracts contained clauses calling for deliveries within three months of the signing of the contract, rather than of its implementation. As a result, the Japanese contractors went ahead and ordered the machinery, some of which was ready for loading at Japanese ports by April. The goods sat on the docks for several months. In the future, firms will be well-advised to specify that all deliveries are to be made after the contract is approved.

It is also recommended that companies not start construction until this time period expires. Although this seems like common business sense, Nippon Steel Corporation in fact began construction on December 23, 1978, the day the formal Baoshan contract was signed. Since then, the large steel complex construction project has run into numerous snags, including the need to drive piles into unexpectedly soft ground and the need to develop a port over a hundred miles south of Shanghai. The present berths near Baoshan can only handle 20,000 dwt tons, and the complex needs a port that can take bulk carriers of 100,000 dwt. After the Japanese experience this spring, few companies will be eager to start construction on projects until the contracts are approved. —DJ 笔

SUSPENDED JAPANESE CONTRACTS—AND THEIR FATES (Continued)

Contractor Date of original contract	Product	Annual Capacity	Technology	Location	Value (million US $)
Mitsubishi Heavy Industries, Nippon Shokubai, Nissho-Iwai (12/78)	Acrylic acid ester	25,000 tons	Nippon Shokubai	near Beijing	$29
Mitsubishi Heavy Industries, Nishi Nihon (12/78)	Styrene butadiene rubber	80,000 tons	Nippon Zeon	Shengli	$28
Mitsui Petrochemical, Mitsui Engineering and Shipbuilding, C. Itoh, Kosho, (12/78)	High-density polyethylene (two plants)	140,000 tons each	Mitsui	Nanjing	$213
	High-purity terephthalic acid	225,000 tons	Amoco	Shanghai	
	Phenol/acetone	50,000 tons	Mitsui	near Beijing	
Nippon Light Metal, C. Itoh, Toko Bussan (1/79)	Aluminum smelting plant	80,000 tons	—	Guiyang, Guizhou	$145
Shinetsu Chemical, Nichimen (2/12/79)	Polyvinyl chloride (two plants)	200,000 tons each	Shinetsu	Nanjing Shengli	$133
Toyo Engineering, Toko Bussan, C. Itoh (1/8/79)	Ethylene (three of four plants)	300,000 tons each	C-E Lummus	Shengli, Nanjing 1 & 2	$306
Toyo Engineering, C. Itoh, Toko Bussan (12/78)	Aromatics plant	184,000 tons	UOP	Shengli	$45
Ube Industries Ltd., Marubeni Corp. (12/25/78)	Ammonia fertilizer (two plants)	300,000 tons each	Texaco partial oxidation, Haldor Topsoe synthesis	Urumqi, Ningxia	$140
Total reinstated:					$2,563.9
Still under negotiation, probably to be canceled:					
Toyo Engineering, Toko Bussan, Mitsui (1/8/79)	Ethylene (one of four plants)	300,000 tons	Lummus	Beijing	$76
Total value of contracts suspended in February:					$2,639.9

Source of dollar figures: Bank of Tokyo.

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Management

The SEC Studies US Industrial Management

Questions raised by the State Economic Commission's Study Delegation of Technical Development in Industrial Enterprises, which visited the US from May 8 to June 12, give insight into the management problems the Chinese are grappling with. The 12-member group was led by Song Ligang, director of the Technical Bureau of the SEC.

The investigation of two basic areas, industrial management and new product development, was the common unifying goal of the delegation. Very clearly, the Chinese are seeking more efficient means of managing their industrial enterprises. Questions focused on methods of accounting within and between enterprises, intra-enterprise relations (especially within a large conglomerate), styles of worker motivation, enterprise responsibility for service and reliability of product, and quality control.

Accounting questions often related to excessive waste and how to control and ascribe responsibility for it. How do you control pilferage? The Chinese examined a chart detailing scrap losses over time with great interest. Who is responsible for losses? Must the workers reimburse the company for wasted materials? What is the utility rate of raw materials? How do you endeavor to improve it? How is the depreciation of machinery accounted?

Corporate relations were another popular topic. The visit to an American ball bearing manufacturer prompted many questions that revealed crucial decisions yet to be made in China. Problems of supply: the balls are manufactured in one state, the rest of the bearing in another. Why not do it all in one place? What proportion of production cost is expended by shipping parts? These questions reflected issues of transport priority and regional integration in China. How do US firms decide where to locate their plants? Do they provide worker housing? How is a company's main office related to its division? Who approves investment expense? What fiscal responsibility does the plant have toward the division? What about profit retention by the plant? What if the plant isn't producing a profit? Who is responsible? How are things managed?

Worker motivation especially concerned the Chinese economic managers. What kind of incentives are provided? How do you encourage a feeling of participation? Any bonuses? Shifting workers within a team? The importance of good training was usually emphasized, as well as fairness to workers.

One US company was in the middle of a campaign to improve productivity. Typical workers were pictured on posters along with a suitable quotation meant to inspire others. The Chinese asked many questions about the organization of this American-style mass mobilization. They were clearly on familiar territory here. Who initiated the campaign? How are the production heroes (pictured in the posters) selected? From above, or by their fellow workers? Is there any monetary remuneration for their contributions? How long will the campaign last? What are the goals and results so far?

Discussions took a fascinating turn with the issue of **enterprise reliability** and responsibility to other dependent enterprises. If a plant depends on spare parts and the supply fails, is the parts supplier liable for ultimate production losses? If not, how can you ensure reliable parts supply?

The group's visit to one electronics company impressed them with the severity of **quality control** employed in America's instrument industry. Each electronic component was tested on entry into the plant. Rejects amounted to only one to two percent. One Chinese delegate commented that China's essential problem is that 30 percent of its components are rejects. This disrupts electronic production right from the start. The group took careful note of the proportion of the labor force engaged in quality control activity at each plant, as well as the breakdown of worker responsibility for faulty products. How can workers be motivated to prevent errors?

The importance of **standards development** was emphasized as crucial to quality assurance. The Chinese expressed interest in developing their own standards as well as participating in international standards organizations.

New product development was the second major area of concern to the SEC delegation. Particulars included government and university participation in industry-sponsored research and development (R & D), various companies' investment share in R & D, the structure of R & D centers, and the trends of current research. Coming from a centrally planned economy, the Chinese distinctly expected a much greater government (and especially local government) involvement in new product development than exists in the US.The group was also interested in the process of industry's subcontracting research to university engineering and science departments.

At every visit the Chinese asked questions about the number of new products and product lines which had been developed in the past twenty years and projections for the future. Most companies responded that American industry's goal is not just to make new products but rather to serve a market. The importance of marketing research and continuing engineering interested the Chinese but the responsiveness to consumer needs seemed new to them.

Questions about the breakdown of sales of machine tools were asked in an attempt to determine what trends are prominent in the American machine tool industry. Which policies should be followed in China in order to skip intermediate steps? The Chinese seemed to be fearful of developing their industry according to today's parameters only to find that by the time plants come on stream, they will already be obsolete.

—Stephen Markscheid 完

Quality Control in China

The Komatsu Story

Quality control is a key issue in China's modernization program. So important is it that September has been declared China's "Quality Control Month." The State Economic Commission (SEC) has recently been encouraging interaction with foreign firms in the US (see story opposite) and Japan (see below) to assist in improving quality control in PRC factories. The learning process, as the Japanese found, was two-way.

Japanese initiatives to introduce quality control to Chinese factories have culminated—with the endorsement of the SEC and its scientific management research and training arm, the China Enterprise Management Association (CEMA)—in designation of a national model for quality control: the Beijing Internal Combustion Engine Factory. Komatsu Company of Japan has completed the series of exchanges that convinced Chinese economic planners and factory personnel, through factory-perfect example, that modern quality control is for them. The story was told in the Japanese publication *Friendship and Trade* and is summarized here.

Komatsu first approached China on providing quality control (QC) assistance in 1973, but it was not until April of 1978, while a delegation including SEC Vice Chairman Fang Yi was visiting Japan, that China confirmed its desire to learn QC. By May, a group from the First Ministry of Machine Building was on site at the Komatsu factory in Japan for a month of study. May 1978 also marks the founding date of China's National Bureau of Standards, under the SEC. In August China joined the International Standards Organization (see *CBR* 5:4, p. 56).

Success at the Beijing factory was impressive. In just one year, output of inferior products reportedly dropped from 29 percent to 0 and factory losses were cut by 740,000 yuan.

Japanese quality control experts made four trips to the Beijing factory, which produces 50,000 diesel and gas engines annually. The first consisted of an eight-member demonstration and teaching team that went into the factory for one month, selected the two most problematical stages of production, and applied QC techniques to them. The team then used the resultant concrete improvements in productivity to illustrate lectures on QC consciousness and statistical methods.

Three months later, two Komatsu representatives returned to check on progress and put together an annual plan. Considerable progress had been made in applying the lessons from the first visit throughout the factory, and SEC Vice Chairman Yuan Baohua expressed his approval.

In subsequent months, ending in May of this year, two teaching teams have reinforced the original efforts. Using seven different textbooks, including Chinese translations of Komatsu's 1,500-page basic text, the teams have taught 6,000 of the engine factory's 9,000 employees and at least 30 carefully selected representatives from factories and universities throughout the country.

QC instruction specialist and team leader, Mr. Motomu Baba, emphasized the importance of education in terms of QC consciousness: "QC is not just for minimizing inferior output. One must also create an atmosphere conducive to quality production. We instructed [them] to determine distinct thoroughfares and storage areas, fix the paint on the walls, and draw lines on the floor." Collecting user feedback for product improvement and providing user education for proper care and upkeep are other aspects of QC that Motomu Baba's team taught.

Instructors were impressed with the enthusiasm of the students, who taught their instructors a Chinese technique: group study. Formulated on Chinese experience with small political study groups, this method involves small-group oral study sessions to review and reinforce lectures. When discussion does not answer all questions, the group designates one person to consult with the instructor and report back to the group. The Komatsu representatives found this method so effective that they are now employing it in Japan.

QC is now beginning to permeate China via a number of media. The students comprise a core of instructors who, back at their schools and factories, are actively spreading what they have learned. At least five of China's major newspapers have reported the success of the model factory, which is open to a barrage of observers.

Top SEC and local government officials toured and praised the factory. And at the March National Meeting on Standards, Vice Premier and Chairman of the SEC Kang Shien declared an annual Quality Control Month to test products for quality every September. A national campaign has begun. —KE 宪

RMB:DOLLAR RATES AS OF SEPTEMBER 7, 1979

	RMB/US$	US¢/RMB
July 14		
Bid	1.5492	64.5494
Offer	1.5414	64.8761
Median	1.5453	64.7124
July 31		
Bid	1.5477	64.6120
Offer	1.5399	64.9393
Median	1.5438	64.7752
August 1		
Bid	1.5539	64.3542
Offer	1.5461	64.6789
Median	1.5500	64.5161
August 11		
Bid	1.5477	64.6120
Offer	1.5399	64.9393
Median	1.5438	64.7752
September 7		
Bid	1.5414	64.8761
Offer	1.5338	65.1975
Median	1.5376	65.0364

Source: Standard Chartered Bank, Ltd.

CHINA: 1979 SALES AND NEGOTIATIONS TO SEPTEMBER 1

The following chart contains recent reports of sales and negotiations exclusive of those listed in previous issues. The format for this table and ones in future issues of *CBR* is slightly different from that used previously. In the past, contracts were simply divided into sales or negotiations. Henceforth, the status of deals will be listed more precisely. Some examples are contract signed, Letter of Intent, proposal, or order received.

The total value figure for sales will include only those deals which are listed as contracts or deals signed/won/secured/concluded. All others will be counted as negotiations. In previous tables, orders for plant/equipment/technology were also included in the total sales figure. Orders will now be counted as negotiations. This distinction is important to keep in mind when examining the cumulative total figures at the end of the chart, since they incorporate both formats; i.e., previous ones which included orders as sales and the following chart, which does not.

Company/Country	Product/Plant/Technology	Value Million US $ (Local currency if known**)	Status Date Announced
Agricultural Commodities			
(New Zealand)	30,000 cubic meters pine timber	$2.04 ($NZ2 million)	Has sold 5/31/79
(EEC)	100,000–150,000 tons white sugar	NVG	Sold 7/79
(New Zealand)	67,700 bales knitting wool for 1st 9 months of current season	NVG	Sold 7/5/79
Palmco Group (Malaysia)	17,000 MT refined palm oil	$10	Sold this year 7/11/79
(Australia)	100,000 MT raw sugar	NVG	Sold 8/1/79
(Chile)	30,000 tons wood pulp/year	NVG	Agreement reached 8/8/79
(India)	Raw cotton	NVG	Negotiation 8/11/79
(US)	For 1978-79 MY:		Sold 8/12/79
	2.699 million MT wheat	$350.87	
	2.804 million MT corn	$294.42	
	142,000 tons soybeans	$38.34	
	61,000 tons soybean oil	$35.38	
	588,000 running bales cotton	$182.28	
Mitsui & Co. (US)	25,000 tons soybeans	NVG	Sold 8/14/79
Zenno (Japan)	Contract to cultivate alfalfa in Shandong	NVG	Contract signed 8/22/79
(US)	150,000 MT corn (141,000 MT for delivery by 9/30/79, the balance for 1979-80 MY)	NVG	Sold 8/28/79
Agricultural Machinery			
Ide Sharyo Co. (Japan)	Cooperation agreement to build agricultural vehicle plant (100,000 units/yr)	NVG	Contract concluded 7/79
Chemical Plants and Equipment			
Industrija Nafta (Ina) (Yugoslavia)	Carbon black plant (25,000 tons/yr)	NVG	Negotiation 6/11/79
Linde (W. Germany)	Technology transfer and licensing agreement relating to ammonia projects	NVG	Agreement signed 6/25/79

CHINA: 1979 SALES AND NEGOTIATIONS TO SEPTEMBER 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local currency if known**)	Status Date Announced
Sekisui Chemicals (Japan)	Plants and processes to produce rigid and soft kinds of adhesive plastic tape	NVG	Basic agreement reached 7/10/79
Chemicals			
(Japan)	150,000 MT ammonium sulphate, 350,000 MT urea (for half-year period ending 12/31/79)	NVG	Agreement signed 7/30/79
Coal Mining Development and Processing			
Ministry of International Trade and Industry, Electric Power Development Co. (Japan)	Design and construction of modern coal liquefaction plant	NVG	Negotiation 8/16/79
(Yugoslavia)	Development of coking coal mine	$150	Contract signed 8/22/79
Construction Plants and Equipment			
Ishikawajima-Harima Heavy Industries (Japan)	Cement plant (4,400 MT tons/day)	$55.7	Contract won 7/30/79
Electronics			
Sony Corp. (Japan)	Video tape recorders for professional use in universities and other educational institutions	$13.82 (¥3,000 million)	Contract signed 6/9/79
Honeywell GmbH (W. Germany)	Advanced process control systems for polyester manufacturing plant (Zimmer is primary contractor)	$5	Has been selected 6/11/79
Hewlett-Packard (US)	Distance measuring equipment (H-P 3810A Total Stations, and a short-range, electro-optical, infrared unit)	$1	Signed and approved order 6/18/79
Cie Honeywell Bull (France)	Manufacturing plant for digital systems	NVG	Negotiation 6/21/79
Belling & Lee Ltd. (UK)	Radio frequency interference filter, modular shielded enclosure	NVG	Order received 6/26/79
Taylor Instruments (UK)	Microprocessor controllers and transmitters for petrochemical plants in Daqing and Shandong	$1 (£0.5 million+)	Order won 7/2/79
Sanyo (Japan)	200,000 black-and-white TV sets and 300,000 tape recorders	NVG	Order received 7/10/79
Sony (Japan)	200,000 12-inch black-and-white TV sets	NVG	Order received 7/10/79
Nippon Electric (Japan)	Plant and related manufacturing facilities for production of picture tubes for monochrome television receivers (700,000+/yr) in Tianjin	NVG	Order received 7/11/79

CHINA: 1979 SALES AND NEGOTIATIONS TO SEPTEMBER 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local currency if known**)	Status Date Announced
Hitachi (Japan)	11 M-150 Series computers	NVG	Provisional contract signed 7/26/79
Rank Strand Electric (UK)	Strand Compact lighting control system	NVG	Sale 8/8/79
Matsushita Electric Industrial (Japan)	Joint venture to produce radios and TV sets	NVG	Basic agreement 8/9/79
Maruzen Engineering (Japan)	Automatic control system and technology for the maintenance of calorific level in fuel gas	$0.78	Contract 8/22/79
Food Processing and Packaging			
Asahi Breweries (Japan)	Cooperation agreement for setting up a beer plant in Hangzhou	NVG	Basic agreement reached 7/31/79
Machine Tools			
Beaver Machine Tool Sales (UK)	Beaver NC5-ATC vertical automatic machining center	$0.09 (£44,000)	Order 7/25/79
Machinery			
Leeds and Bradford Boiler Co. (UK)	2 Boilerclaves	NVG	Order received 7/79
Wentgate Engineers (UK)	4 EB welders	$0.4 (£200,000+)	Order received 5/30/79
Bone Markham (UK)	Specialized tandem polyethylene coating machine	NVG	Sold 8/22/79
Metal Mining and Processing			
Inoue Japax Research Inc. (Japan)	Agreement to provide technology on rare earths and to undertake joint research and development	NVG	Agreement finalized 7/19/79
OH Steel Founders and Engineers (UK)	Dredger buckets and tumblers for gold mining in Heilongjiang	$1 (£500,000)	Order won 7/26/79
Vacuum Engineering Industries (UK)	2 vacuum induction furnaces for production of nickel-cobalt alloys used in the manufacture of Rolls-Royce Spey engines	$4+ (£2 million+)	Purchased 8/8/79
Mining Equipment			
Scandura (UK)	PVC conveyor belts	$2 (£1 million)	Export order 5/30/79
Baldwin and Francis Holdings (UK)	Flameproof motor starters	$7.6 (£3.8 million)	Contract received 7/6/79

CHINA: 1979 SALES AND NEGOTIATIONS TO SEPTEMBER 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local currency if known**)	Status Date Announced
Petroleum and Natural Gas Development and Refining			
J. S. Sieger of Poole (UK)	Gas detection equipment sold at British Energy Exhibition, Beijing	NVG	Sold 7/5/79
(Japan)	Joint development of suspected large inshore and offshore oil reserves in vicinity of Senkaku Islands (Diaoyu Tai)	NVG	Japan will offer to negotiate 7/11/79
Japan National Oil Corp., Exxon, Mobil, Standard Oil of California and Texaco Group, Philips (Japan, US)	Joint exploration of offshore oil reserves in South China Sea off Zhujiang River	NVG	Contracts signed 8/17/79
Power			
Elco Power Plant of Bradford (UK)	7.5kVA generating set (subject to evaluation by PRC)	NVG	Order 6/29/79
Petbow (UK)	Generating sets sold at British Energy Exhibition, Beijing	$0.12 (£60,000)	Sold 6/79
Asea AB (Sweden)	Equipment for three 550/220 kV substations	$20	Order 8/9/79
Shipping			
Japan	Research ship, 942 grt, 697 dwt, built 1979, Mitsubishi-Yokohama	NVG	Delivered 3/79
Poland	Kendari No. 5 (dry cargo, 3,730 grt, 6,285 dwt, built 1977)	NVG	Delivered 3/79
US	US Olympic (research ship, 291 grt, built 1967)	NVG	Delivered 3/79
West Germany	Kybfels (breakbulk cargo, 9,445 grt, 13,199 dwt, built 1967)	$3.0	Delivered 3/79
Greece	Theadoros As (breakbulk cargo, 9,794 grt, 15,113 dwt, built 1977)	$6.15	Delivered 3/79
Singapore	Self-elevating, non-self-sustaining jack-up drill rig, 4,750 grt, built 1979, Beth Singapore	NVG	Delivered 4/79
Japan	Offshore supply vessel, 1,500 grt, built 1979, Mitsui Zosen Niigata	$4.5	Delivered 4/79
Japan	Trawler, 510 grt, 204 dwt, built 1979, Tokushima Zosen	$0.10	Delivered 4/79
Japan	Trawler, 205 grt, built 1979, Tokushima Zosen	$0.10	Delivered 4/79
Japan	Trawler, 203 grt, built 1979, Tokushima Zosen	$0.10	Delivered 5/79
Japan	Trawler, 203 grt, built 1979, Tokushima Zosen	$0.10	Delivered 5/79

CHINA: 1979 SALES AND NEGOTIATIONS TO SEPTEMBER 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local currency if known**)	Status Date Announced
Greece	Aegis Thunder (self-sustaining bulk, 21,132 grt, 38,750 dwt, built 1967)	$4.5	Delivered 5/79
Denmark	Henrik Sif (breakbulk cargo, 499 grt, 1,301 dwt, built 1967)	NVG	Delivered 7/79
Denmark	Kongedybet (Short-Sea Passenger Car, 2,828 grt, 524 dwt, built 1952)	$2.38	Delivered 7/79
Cyprus	Naya (breakbulk cargo, 7,341 grt, 10,999 dwt, built 1949)	$0.46	Order 1979
France	Pointe Allegre (refrigerated cargo, 6,738 grt, 8,758 dwt, built 1969)	$4.2	Order 1979
France	Pointe Marin (refrigerated cargo, 6,738 grt, 8,783 dwt, built 1970)	$4.2	Order 1979
Greece	Athens Sun (breakbulk cargo, 5,063 grt, 7,285 dwt, built 1954)	$0.35	Order 1979
Greece	Prospathia (breakbulk cargo, 9,865 grt, 15,177 dwt, built 1970)	NVG	Order 1979
Greece	Sea Falcon (breakbulk cargo, 9,422 grt, 15,200 dwt, built 1977)	$4.03	Order 1979
Greece	Sun (breakbulk cargo, 4,617 grt, 6,731 dwt, built 1954)	$0.46	Order 1979
Greece	Swan (refrigerated cargo, 5,404 grt, 4,653 dwt)	$1.9	Order 1979
Greece	Master Stefanos (general self-sustaining bulk cargo, 18,634 grt, 32,312 dwt, built 1971)	$3.9	Order 1979
Hong Kong	2 breakbulk cargos, 1,600 grt each, A Fai Engineering	NVG	Order 1979
Hong Kong	2 refrigerated cargoes, 1,800 grt each, 3,000 dwt each, China Pacific	NVG	Order 1979
Japan	2 tugs, 3,300 grt each, IHI Chita	NVG	Order 1979
Japan	3 dredges, 1,400 grt each, Hakodate Dock	$30 ($10 each)	Order 1979
Japan	2 dredges, 15,000 grt each, 12,600 dwt each, IHI Kure	$5 ($2.5 each)	Order 1979
Japan	3 dredges, 3,000 grt each, Mitsubishi-Hiroshima	NVG	Order 1979
Japan	Dredge, 1,700 grt, Nippon Kokan	$8.8	Order 1979
Japan	Antipollution vessel, Kanmon Zosen	$1.5	Order 1979
Japan	4 construction vessels, Hakodate Dock	$14.6 ($3.65 each)	Order 1979
Japan	2 crane ships, IHI	NVG	Order 1979
Japan	2 self-elevation, non-self-sustaining jackup drill rigs, Hitachi Zosen	$54 ($27 each)	Order 1979
Liberia	Ocean Progress (breakbulk cargo, 11,274 grt, 16,441 dwt, built 1971)	$5	Order 1979

CHINA: 1979 SALES AND NEGOTIATIONS TO SEPTEMBER 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local currency if known**)	Status Date Announced
Liberia	Ocean Prosper (breakbulk cargo, 11,256 grt, 16,449 dwt, built 1970)	$5	Order 1979
Liberia	Moutiron (dry cargo, 11,301 grt, 19,536 dwt, built 1968)	$3.95	Order 1979
Liberia	Lamaria (general, self-sustaining bulk cargo, 10,938 grt, 19,483 dwt, built 1970)	NVG	Order 1979
Liberia	Wayway (general, self-sustaining bulk cargo, 13,553 grt, 23,969 dwt, built 1968)	NVG	Order 1979
Liberia	Amax Macgregor (general non-self-sustaining bulk cargo, 21,896 grt, 38,904 dwt, built 1966)	NVG	Order 1979
Netherlands	6 dredges, IHC Holland	$19.98 ($3.33 each)	Order 1979
Netherlands	2 dredges, IHC Holland	NVG	Order 1979
Netherlands	Non-self-propelled rig, Rijn-Schelde-Verolme	$5	Order 1979
Norway	Mosbrook (general, non-self-sustaining bulk cargo, 45,857 grt, 83,776 dwt, built 1972)	$3.7	Order 1979
Panama	Star Procyon (breakbulk cargo, 11,418 grt, 18,813 dwt, built 1976)	$8.4	Order 1979
Panama	Kendari No. 3 (dry cargo, 3,790 grt, 6,133 dwt, built 1977)	NVG	Order 1979
Panama	Dona Montserrat (passenger ship, 3,658 grt, 928 dwt, built 1967)	$2.01	Order 1979
Singapore	Turtle Bay (breakbulk cargo, 4,500 grt)	$4.03	Order 1979
Sweden	Birkaland (breakbulk cargo, 9,640 grt, 12,853 dwt)	$3.9	Order 1979
Sweden	Jari R. Trapp (general, self-sustaining bulk cargo, 17,374 grt, 27,626 dwt, built 1968)	$3.65	Order 1979
United Kingdom	Bandama (breakbulk cargo, 10,815 grt, 15,745 dwt, built 1977)	$7.59	Order 1979
United Kingdom	La Bonita (breakbulk cargo, 1,442 grt, 2,402 dwt, built 1965)	NVG	Order 1979
United Kingdom	Taabo (breakbulk cargo, 10,815 grt, 15,737 dwt, built 1977)	$7.59	Order 1979
United Kingdom	Eastern City (general non-self-sustaining bulk cargo, 35,677 grt, 59,750 dwt, built 1976)	NVG	Order 1979
United Kingdom	Hamlet Beatrice (general non-self-sustaining bulk cargo, 35,706 grt, 59,750 dwt, built 1977)	NVG	Order 1979
Steel and Steel Products			
Daido Steel, Sanyo Special Steel Co. (Japan)	8,000 MT steel for 2nd half of 1979	NVG	Provisional agreement 8/3/79

CHINA: 1979 SALES AND NEGOTIATIONS TO SEPTEMBER 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local currency if known**)	Status Date Announced
Steel Plants and Equipment			
Dalmine SpA (Italy)	Seamless steel tube plant (500,000 tons/yr) for oil exploration and recovery	NVG	Negotiation 7/23/79
Textile Plants and Equipment			
Tomen (Japan)	Cotton spinning plant (5,900 tons of cotton fiber/year)	$8 (will be paid in cash)	Order received 7/79
Unitika (Japan)	Cashmere processing plant (1,200 MT/year)	$13.7	Agreement signed 8/8/79
Tottori F-One Co. (Japan)	Cooperation agreement for modernization of clothing factory in Shanghai	NVG	Will cooperate 8/18/79
Tourism			
(Philippines)	Construction of two 500-room hotels in Beijing and Guangzhou	NVG	Memorandum of Understanding 7/8/79*
(Singapore)	Joint venture to build 37-story hotel in Nanjing	NVG	Contract signed 8/20/79
Transportation Equipment			
Ishikawajima-Harima-Heavy Industries (Japan)	Modernization of diesel engine factories	NVG	Agreement reached 6/9/79
Beech Aircraft Corp. (Kansas) (US)	Joint venture for production of agricultural aircraft	NVG	Possibility explored 8/22/79
Mitsubishi Heavy Industries (Japan)	2 Mitsubishi-SPO high-pressure top-speed molding lines for Wuhan automobile production plant	NVG	Order received 8/24/79
Miscellaneous			
Rank Aldis (UK)	Series of 26 educational films	NVG	Order placed 6/1/79
Time, Reader's Digest (US)	*Time* and *Reader's Digest* English-language editions to be sold in hard-currency shops	NVG	First issue of *Time* 8/79 First issue of *Reader's Digest* 10/79
Scientific American (US)	Joint venture for the publishing of Chinese-language edition of *Scientific American*	NVG	First issue to come out 1/80

Total Value of 1979 Sales Listed through September 1:	**$1.17 billion +**
Total Value of 1979 Negotiations Listed through September 1:	**$259.39 million +**
Cumulative Total Values of 1979 Sales Listed through September 1:	**$6.5 billion +**
Cumulative Total Values of 1979 Negotiations Listed through September 1:	**$2.46 billion +**

NVG = No Value Given

NA = Not Available

* Date contract signed. All other dates are when sales or negotiation was announced.The only exceptions to this are several entries in the shipping section. The dates listed refer to when the ships were delivered and are marked as such.

** Dollar conversion at month-end rates quoted in IFS (IMF).

Update

POSITIONS

On July 1, Fang Yi, vice premier of the State Council and minister in charge of the State Scientific and Technological Commission, was appointed president of the Chinese Academy of Sciences, a post vacant since Guo Moruo died in June 1978. Fang had been a vice president of the CAS.

Three new vice premiers were appointed to the State Council on July 1: Chen Yun, Bo Yibo, and Yao Yilin. Chen, 80, a longtime advocate of balanced economic development, is a full member of the Standing Committee of the Communist Party and a vice chairman of the Standing Committee of the National People's Congress. Bo, a moderate economic pragmatist, was a high government official until 1967, when he was branded a "big renegade" and "counterrevolutionary revisionist"; the new appointment signifies completion of his rehabilitation. Yao was a delegate to the National Science Conference in March 1978.

On September 13 Ji Pengfei, a long-time Party leader, was also named a vice premier. Ji was acting foreign minister when Henry Kissinger secretly visited China in 1971 to pave the way for President Nixon's 1972 visit. Shortly thereafter he was appointed foreign minister, which post he held until 1974. He is 70 years old.

Creation of two new ministries was also announced on September 13. Wei Wen Bo was named to head the new Ministry of Justice. Active in the party since the 1920s and purged in 1967, he is a longtime associate of Vice Premier Deng Xiaoping. The new Ministry of Geology, which presumably replaces the State Geology Bureau, is to be headed by Sun Daguang, who had been the Bureau's director. Sun is a former minister of communications.

In another key change on the same date, Wu Bo, who was vice minister of finance from 1952 until his purge in 1967, was named to replace Zhang Jingfu as minister of finance. Zhang was named deputy secretary-general of the new Financial and Economic Commission.

Bu Ming, formerly a vice chairman and vice president of the Bank of China, was identified as chairman at the first joint meeting of the Fourth Board of Directors and Inspectors of the BOC, held on July 27. Qiao Peixin, the former chairman, may have resigned because of illness; he is identified as "Honorary Chairman."

ORGANIZATIONS

On July 1 the Standing Committee of the National People's Congress (NPC) set up a Financial and Economic Commission under the State Council, with newly appointed Vice Premier Chen Yun named as chairman, Vice Premier Li Xiannian as vice chairman, and new Vice Premier Yao Yilin as secretary-general. A Foreign Investment Commission and Import-Export Commission, with Vice Premier Gu Mu chairing both, were approved July 30 by the NPC. For details on all three commissions, see page 9.

The first congress of the China Standardization Association was held in Hangzhou (Zhejiang Province) from June 28 to July 4. Yue Zhijian, vice minister of the State Economic Commission and director of the State Standardization Bureau, was elected president.

The State Pharmaceutical Administration, the formation of which was announced in January, recently held a telephone conference "to relay and implement the guidelines . . . on the production, procurement, and marketing of medicine, and consider future tasks for increasing production, practicing economy, and expanding the marketing of medicine." This is the first concrete information made public on the activities of the SPA.

The Nei Monggol Academy of Social Sciences, which was established in 1978, recently announced establishment of five new institutes for history, language, literature, economy, and philosophy.

On August 1, the China Society of Libraries announced its formation; at the time, China's first national forum on library science was in progress. The aims of the new society are to organize research, make publications, conduct academic exchanges with foreign libraries and librarians, and to "introduce achievements in library science at home and abroad." Liu Jiping, curator of the Beijing Library, was elected president.

In early August the State Council approved the establishment of a fish farming company under the General Bureau of Aquatic Products. The company will be responsible for breeding and exporting prawns and eels. In 1978 prawns accounted for 50 percent of the foreign exchange earned by exports of aquatic products. Sixteen prawn breeding grounds are to be set up in China's six coastal provinces.

The China Cooperative Film Production Company has begun to work with foreign firms in the making of films. According to Zhao Wei, a "responsible person" of the company, films are to be jointly produced, with the Chinese providing labor services, technical facilities, and the like. The new company probably comes under the Ministry of Culture's Film Bureau.

BNC enterprises, a New York company, has been appointed the sole agent for obtaining advertisements from companies in the US and Europe for China's Science Press. The Science Press is under the Chinese Academy of Sciences and publishes 57 journals in fields such as psychology, mathematics, chemistry, and computer science. 完

CORRECTION

The New Minister of State Farms and Land Reclamation is Gao Yang, not Gao Yangmin as was reported on page 79 of the last issue of *CBR*.

The National Council for US-China Trade Officers and Staff

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