

THE MAGAZINE OF THE NATIONAL COUNCIL FOR US-CHINA TRADE NOV.-DEC. 1977

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# The China Business Review



VOL. 4

NO. 6





**NEW FROM THE  
NATIONAL COUNCIL**

# **DIRECTORY**

## **of Research Institutes in the People's Republic of China**

The emphasis on China's scientific research is on "Uniting theory with practice", applying science to the needs of changing economic priorities. In the past seven years China's scientific and technical interaction with the world's scientific and industrial community has increased enormously. The need to know the state of China's scientific research has become important.

The *Directory of Research Institutes in the People's Republic of China* is an up to date reference that any organization or individual concerned with China's scientific development will find indispensable.

The *Directory* will be a standard reference for the following—

- Members of scientific and technical missions to the PRC.
- Companies giving technical presentations in China, and participating in exhibitions in China.
- Institutions and firms hosting scientific and technical delegations from China.
- Scientific and technical research institutes studying research in China, overall or in individual categories.
- Companies analyzing the market for scientific instruments and other laboratory equipment in the PRC.
- Companies analyzing China's scientific development in the short to long range as it relates to their own product area.
- Individuals interested in learning about the state of science in the PRC.

### **About the Directory**

In 1977, the National Council is publishing a three volume *Directory of Research Institutes in the People's Republic of China*. The 300-plus page volumes will describe research in the categories listed and will provide comprehensive information about the organization and work of all known industrial research institutes in China through 1976. The *Directory* has been prepared by Susan Swannack Nunn.

The *Directory* contains the following data where known • name and addresses of the institute, in English and Chinese • date of establishment • organization

• staffing • research divisions • subsidiary facilities • affiliates • biographical information of staff • present and past research and publications • recent research and activities (including abstracts of work published) and known equipment installed.

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# The China Business Review



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**Front Cover:** CHINAPACK meets the inventor of the pop-top lid. Following visit to Dayton Reliable Tool, members of the Chinese packaging delegation relax with Ernie Frazee, the inventor. Left to right: Mrs. Frazee; Mme. Feng Jui-fang; Mr. Meng Jen-na, Deputy General Manager of CHINAPACK and leader of the delegation; Mr. Frazee; and Mr. Huang Tsien-mo, commercial official from PRCLCO. See page 14.

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

The National Council for United States-China Trade is grateful to His Excellency Huang Chen, formerly Chief of the Liaison Office of The People's Republic of China in Washington, for the calligraphy on the front cover of the China Business Review.



# China Trade Events

## **MONTREAL, December 1-2**

The McGill University Centre for East Asian Studies and Faculty of Management sponsored a two-day conference entitled "The Chinese Economy and Sino-Canadian Trade." Speakers included Dr. Maurice Strong, chairman of Petro Canada, and representatives of the Canadian banking community. For details, write the Faculty of Management, Quebec H3A 1G5, Canada.

## **STAMFORD, CONNECTICUT, December 7**

Christopher H. Phillips, president of the National Council for US-China Trade, addressed the Stamford Forum for World Affairs on the topic of "Trade and Investment with the Communist Economies—Potentials and Pitfalls."

## **WASHINGTON, D.C., December 14**

A panel on China's Economy and Foreign Trade was featured in the morning session of the quarterly meeting of the Commerce Department's East-West Trade Advisory Committee. Speakers included Hugh Donaghue and Julian Sobin. For details, contact William Kolarik (202) 377-4691.

## **HONOLULU, HAWAII, January 12-14, 1978**

The Harvard University Center for East Asian Studies will sponsor a business conference entitled, "Southeast Asia: Progress and Prospects." While the meetings will be directed mainly towards problems of investment and management in Southeast Asia, they will include panels and discussion on China's relation to Southeast Asian countries. For further information, contact Dr. Pat Maddox (617) 495-4657.

## **PHILADELPHIA, January 20-21, 1978**

The Social Science Research Council's Subcommittee on Research in the Chinese Economy will sponsor an academic symposium titled "Regional and Economic Development in China: Historical and Southeast Asian Perspectives." For information, contact Dr. Robert Hartwell (215) 243-5703.

## **LOS ANGELES, January 21, 1978**

"Oriental Despotism or People's Paradise: Will the Real China Please Stand Up?" is the title of a one-day program co-sponsored by University Extension (at the University of California, Los Angeles) and the China Council of the Asia Society. Speakers including Chalmers Johnson of UC Berkeley and authors Jack Chen and Orville Schell will discuss American public images and perceptions of China, how they are formed, and how they have changed since

the Nixon trip of 1972. For details, contact Dr. Richard Baum (213) 825-1987.

## **CLEVELAND, February 6, 1978**

The Ohio Foreign Commerce Association will hold a luncheon meeting featuring a speaker and discussion on aspects of US-China trade. For details, contact Program Chairman Raymond W. Luzar (216) 861-3754.

## **NEW YORK CITY, April 1, 1978**

The Importers' Steering Committee of the National Council for US-China Trade will hold a pre-Canton Fair briefing session to acquaint new fair-goers with problems and practices of the bi-annual Export Commodities Fair in Kwangchow (Canton), China. For information, contact Suzanne Reynolds, (202) 331-0290.

## **KWANGCHOW, CHINA, April 15-May 15, 1978**

The Spring Canton Trade Fair will be held, with National Council staff on hand to advise and assist US business representatives.

## **WASHINGTON, D.C., September, 1978**

The National Council will hold a conference on technology transfer and licensing to the PRC. 完

### **YOUR MAN IN HONG KONG**

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# SPARES TAKE A LITTLE LONGER

## How Rolligon Sold Petroleum Equipment to the PRC

While it often takes a great deal of patience and persistence to penetrate the China market, this is not necessarily the case every time, especially for a company that makes a one-of-a-kind product the Chinese want to buy. Rolligon Corporation, based in Houston, Texas, is an example of one such American firm. It recently signed a contract with MACHIMPEX for several million dollars of rough terrain vehicles and a second provision for spare parts.

Rolligon's first, and only, real marketing effort for China came in the summer of 1976 when the firm retained the services of J. Ray Pace of Baker Trading Company in Houston, an established China trader specializing in the petroleum equipment industry. Pace put together a package of Rolligon company literature, along with a set of slides and motion pictures that could more vividly portray the advantages of Rolligon equipment in a variety of difficult operating situations.

As Pace passed on the Rolligon material to Chinese foreign trade officials in October, 1976, there was no indication that it was of particular interest or that any action on the matter would be taken. For the next eight months, Rolligon's China program lay dormant.

Then, on June 11, 1977, a MACHIMPEX letter arrived in Houston: "We are pleased to announce that our customers are interested in your off-road vehicles," it began. The communication continued to explain that the Chinese would like to host the company for a technical presentation and possibly contract negotiations in reference to the information Rolligon had sent over the previous October. The letter concluded, "Should you take an interest, please cable names of personnel" (so that visas for their trip to Peking could be arranged).

### Company Not Convinced

At the time the letter arrived, however, the company thought lightly of sending any of its executives into China, and they were not convinced that the Chinese were genuinely interested in making purchases.

Once again, the Chinese sent word of their sincere



Rolligon's six-wheel rough terrain 6660.

interest. In this case, it came through the National Council for US-China Trade, which, on June 15, 1977, received in Washington a Chinese petroleum equipment study group from MACHIMPEX and the China Petroleum and Natural Gas Exploration and Development Corporation, the unit responsible for exploration for and production of China's oil and gas. One of the Chinese delegation's requests for its tour of the American petroleum industry was a visit to the Rolligon factory in Houston.

"Then, we were impressed," recalls Rolligon President John Holland. "We knew the Chinese had come to do something, not just talk about it."

Acting upon the Chinese request, the National





**Rolligon's ten-wheeler.**

Council arranged for the Chinese group to tour the Rolligon factory, at which time members of the delegation had the opportunity to drive some of the company's vehicles for themselves. At least one observer present on the tour contends that the Chinese decided to buy the equipment that day in the company parking lot.

The visit was encouraging enough for the company to send a representative, David O'Connor, and his wife into Peking. Arriving on July 28, equipped with much of the technical data the Chinese had requested in their June 11 letter, O'Connor spent three weeks in technical discussions with Chinese "end-users"—field engineers.

Although Baker Trading Company officials had advised that the Chinese were very serious about having complete data on spare parts, O'Connor, unaccustomed to such procedures, realized when he arrived in Peking that he had underestimated the Chinese interest in spare parts.

### **Not Enough Data**

As the presentation went on—with two sessions in one day, then a two-day break, followed by several more sessions later in the week—Rolligon's representative discovered that the technical data he had brought with him were insufficient.

Besides the basic technical and price specifications on the Rolligon vehicles, the Chinese were, naturally, interested in details on the company's own spare parts. Furthermore, the Chinese wanted to discuss equipment produced by other manufacturers, such as drilling rigs, cranes, recorder cabs, and other equipment mounted on Rolligon vehicles. The company itself produces tires, wheels, chassis, frames, and other selected equipment for its vehicles, depending on other firms for the transmissions, engine, bearings, winches, and other components. To meet the Chinese thirst for more information, O'Connor had to telephone back to the States for volumes of additional equipment and parts catalogs. Assessing the situation, he realized that he was confronted with educating the

Chinese negotiators about all parts on Rolligon equipment.

Before the contract negotiations were complete, the Chinese apparently wanted to be absolutely clear in their own minds what the cost of additional parts to operate the equipment in the future would be. In fact, according to company officials, the dominant chord of the entire technical presentation process was the Chinese concern that they completely understand how the machinery worked so that, once they purchased it, they would be able to operate and service it, independent of foreign assistance.

### **The Latest Developments**

The negotiation of the contract began when Rolligon President Holland arrived in Peking on August 19, also accompanied by his wife. The main negotiations for the vehicles lasted a full month, after which Holland left China and O'Connor stayed on for another six weeks to discuss a contract for spare parts.

Opposite the two Americans during the initial contract talks were usually six to eight Chinese: three or four English-speaking officials from MACHIMPEX, including a designated interpreter, and three or four non-English-speaking end-users. The sessions were held in both Chinese and English in what was described as a "very serious and very intelligent manner." "The Chinese wanted to be sure they were getting the very best equipment," according to Holland. "They wanted the latest developments."

Without too many problems, the two sides came to agreement on September 15 for the sale of thirty Rolligon vehicles valued at \$3 million. The order consisted of twenty-four Rolligon Model 6660 (six-wheel) and six 101060 (ten-wheel) vehicles, complete with Ford and Cummins diesel engines and Clarke transmissions. The vehicles will be sent to China, it is planned, in two shipments, the first in March–April, 1978, and the second in late summer, 1978.

Terms were FOB Houston, by an irrevocable letter of credit by the Chinese with the Bank of China through Barclay's Bank International, New York. The arbitration clause, which was not a point of contention during contract discussions, stipulates arbitration in either Canada or Sweden with either Canadian or Swedish arbiters. The contract also calls for Rolligon to provide a technician for training a number of Chinese in operating the off-road vehicles; so, one Rolligon engineer will visit China next summer to put equipment into operation. There is no plan for Chinese technicians to go to Houston.

So, within twelve months of presenting their first batch of company literature, Rolligon had the satisfaction of having a substantial contract with the Chinese. By mid-November, a spare parts contract was signed for \$500,000, although Rolligon Corporation had difficulty justifying prices it quoted on spare parts supplied by the sales agents of other manufacturers. 完



# CHINA SETS FOOT IN THE US

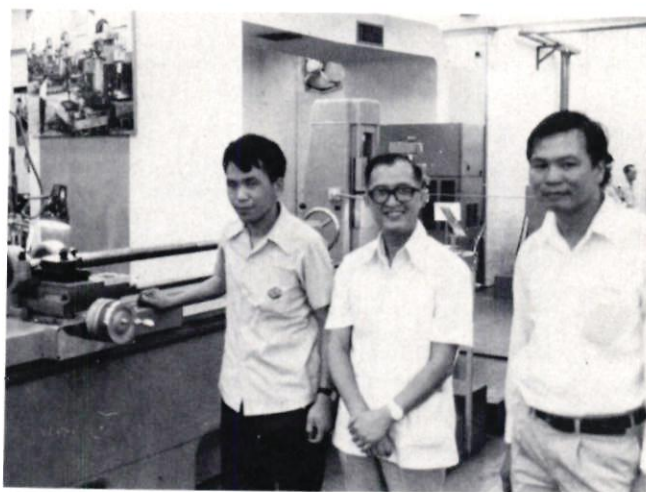
John T. Kamm

*China has taken its first overt step to establish a sales office in the US. In April of this year, a PRC-controlled Hong Kong firm took space in Los Angeles to launch a sales drive in the US of machine tools, as well as nonferrous metals and ores and later, perhaps, foodstuffs and native produce. In the future, will China develop sales to the world's largest market via more of these offices? This newest move, described below by the National Council's Hong Kong representative, suggests that Peking is taking the US market seriously indeed and indicates that the PRC may, in the long run, prefer its own middlemen.*

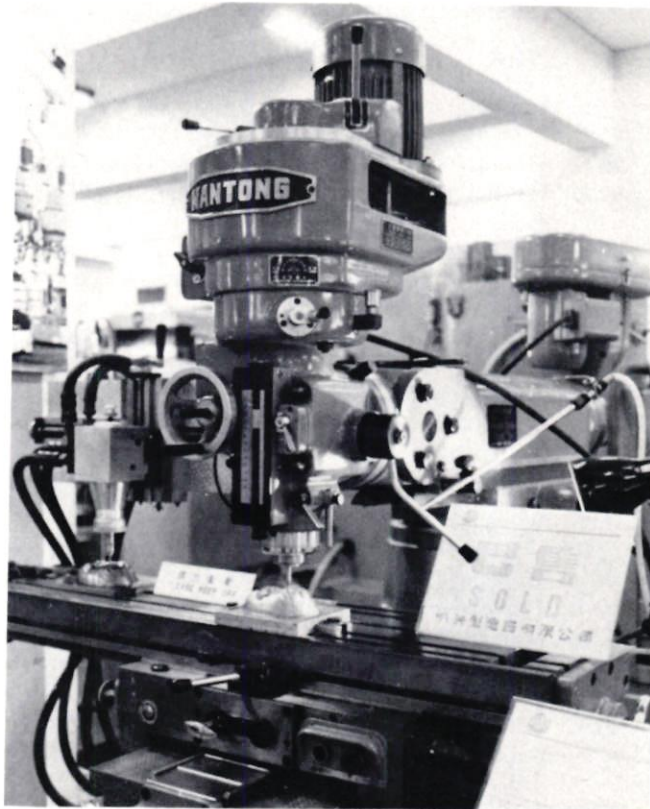
The China National Machinery Import and Export Corporation (MACHIMPEX) has given a green light to its two Hong Kong-based distributors to launch an ambitious export drive to market Chinese machine tools in the United States. The two companies, Cosmo Machinery Trading Company and Oriental Machinery, Ltd., have incorporated a marketing arm in California—Oriental Cosmo Enterprise—and opened an office in Los Angeles. The first shipment of machine tools, 15 items ordered at last spring's fair in Canton, will arrive in Long Beach this autumn (see box).

The decision by Oriental and Cosmo to establish a sales office in the US is an important step in the development of high-priority export markets. Other features of the export drive are equally significant. In its efforts to penetrate the US market for "intermediate technology," Oriental Cosmo will rely heavily on commercial techniques first employed in MACHIMPEX export drives throughout Hong Kong and Southeast Asia; such techniques have included wholesale and retail incentives, intensive advertising, and exhibitions.

And, in a startling development which highlights Hong Kong's expanding role in Sino-US trade, the MACHIMPEX distributors are constructing a \$20 million plant on a three-acre site on Tsing Yi Island to service—and eventually produce—Chinese machine tools and components destined for American end-users.



At Cosmo showrooms l. to r., MACHIMPEX technician, Messrs. Choi and Won of the Cosmo Group. Below, Universal Milling Machine, from Nantong, Kiangsu, sold by Cosmo.





## Sole Distributor for Chinese

Cosmo Machinery Trading Company was established in 1959 and promptly acquired the sole distributor franchise for Chinese machine tools and motors in Hong Kong. Oriental Machinery was set up in 1974 to handle machine tool distribution in Thailand and the Philippines; the company operates sales offices in Bangkok and Manila. Both firms are "owned by the same gentlemen"—a group of "patriotic personages" long active in Chinese business communities in Hong Kong and Southeast Asia.

Cosmo has enjoyed a steady growth in sales, with a pronounced upswing in volume after 1970. According to Tang Kwan, president of the Cosmo group, sales volume in 1976—a total of more than HK \$40 million—was more than triple that of 1970.

A large share of Cosmo's business derives from sales of machine tools to Hong Kong's metalworking shops. Approximately 100 units are now sold on average every month. Local government statistics reveal that China exported HK \$18.3 million of metalworking machine tools in 1975, accounting for 25% of the colony's market. China is currently the largest supplier of lathes and planing machines to Hong Kong's machine tool shops.

Ties between MACHIMPEX and the distributors are strong and varied, ranging from preferential trading arrangements to numerous forms to technical and commercial cooperation. Cosmo and Oriental keep their own stocks and place orders according to estimates arrived at during discussion with MACHIM-

### THE CHINESE HAVE LANDED

In what appears to be the first attempt by the PRC to establish a marketing arm in the United States, Oriental Cosmo Enterprise Incorporated was established in Los Angeles, California in April, 1977. This newly formed five-man corporation is wholly owned by three Hong Kong companies: Cosmo Machinery Trading Company, Oriental Machinery Limited, and Tai Tung Industrial Equipment Company (itself a subsidiary of Cosmo Machinery and Oriental Machinery), all three of which have close ties with Chinese FTC's. Company officials are currently determining whether or not to use an outside distributor to wholesale its sales.

To supplement its machine tool business, the company has begun to import a variety of non-ferrous metals and ores, specifically tungsten, antimony, tin, and manganese, directly from the PRC. Later, Chinese foodstuffs, native produce, and other products may be added to their lines. For more details, contact Mr. John Wen, Vice President, Oriental Cosmo Enterprises Incorporated, Broadway Plaza Suite 1118, 700 South Flower Street, Los Angeles, California 90017; telephone (213) 623-5361.

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*"Our aim is to distribute Chinese machine tools on a nationwide basis in America; the first task of our Los Angeles office is to contact potential distributors."*

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PEX at trade fairs. Customers can place orders against existing stock or on an indent basis with direct shipments from China ports. Cosmo makes liberal use of the MACHIMPEX logo in promotional materials and office stationery, and Oriental reportedly received the support of the Chinese government in its successful bid to open an office in Manila.

Both firms have access to lines of credit in Hong Kong's large PRC banking sector; records kept at the Company Registry show that Cosmo obtained mortgages from the Shanghai-incorporated Sin Hua Trust, Savings and Commercial Bank on two occasions during the last ten years to fund corporate expansion.

### Technical Cooperation

An interesting facet of the distributors' relationship with MACHIMPEX is the high degree of technical cooperation between the respective staffs. At Cosmo's "Chinese Export Machine Tools and Motors Exhibition" (June 16-July 15, 1977), technicians from the Peking head office and factories in Shenyang, Tientsin, and Shanghai were much in evidence—particularly on the more sophisticated numerical and optical control models. The MACHIMPEX technicians were part of a 12-man delegation led by the director of the corporation's Fifth Export Department; the group attended the opening of the exhibition and reportedly stayed in Hong Kong after the closing ceremony for several weeks of business discussions.

Staff members of the Hong Kong-based distributors have made comprehensive visits to all of China's machine tool manufacturing centers, and MACHIMPEX has agreed to supply "technical assistance" for the Tsing Yi plant.

According to W.H. Choi, a senior manager of the Cosmo group, a "pattern of close and detailed consultations on market conditions" exists between MACHIMPEX and the distributors. Such consultations have grown increasingly frequent since the initiation of the Southeast Asian export program in 1974, and played an important role in the eventual decision to open a US office.

### Market Survey of US

In July-August 1976, Cosmo personnel made the first of two extensive market surveys of the US. "Shortly after our arrival, we discovered that the US



imports a large number of conventional machine tools from countries like Japan, Germany, Poland and Czechoslovakia," related Mr. Choi. "Why? American manufacturers are now concentrating on sophisticated machine tools and are no longer making less-sophisticated tools despite a large demand from existing industries. With imports of machine tools rising, there should be a big market for Chinese machinery, which is of high quality and considerably less expensive than other machinery. When Chinese machine tools are not suitable due to the market's particular characteristics, modification in Hong Kong can overcome the problems."

Cosmo made a follow-up survey in January-February, 1977. Summing up its market investigations, Cosmo formulated a plan for selling conventional, "intermediate-technology" lathes, grinders and milling machines. Typical of the machines for which Cosmo expects high demand is a general geared head lathe (model C6232A) manufactured by the Kwangchow Machine Tool Works. The machine is solidly constructed and is priced 20% lower than the comparable American machine.

Cosmo submitted its plan to MACHIMPEX, and, following considerable discussion, orders were placed for the US market at the spring 1977 CECF. The Hong Kong distributors plan to draw on lessons learned in Southeast Asia. "We know the importance of effecting a presence through a sales office. Our aim is to distribute Chinese machine tools on a nationwide basis, and the first task of our Los Angeles office is making contact with potential distributors."

In Hong Kong and Southeast Asia, the Cosmo group has used media promotion and large-scale exhibitions to generate demand. The 1977 machine tools exhibition was the sixth show since 1960; 40 machines—sixteen of which had never been displayed abroad—were exhibited at Cosmo's showroom in Kwun Tong, a large industrial district of Kowloon.

More than 40,000 guests—including nearly 100 overseas customers—turned up for the event, which reportedly resulted in sales of HK \$3.0 million. S. Y. Won, a staff member of Oriental Machinery, stated that exhibitions usually induce sales 30% above those achieved during the average month, and a quick stroll through the exhibition hall revealed a high percentage of machines with "sold" signs attached.

Cosmo anticipates that high Column II US duty rates (which typically range from 30-45% as opposed to Column I rates of 5-7.5%) will dampen US demand for Chinese machine tools, but the company is confident that the problem will be solved. In the meantime, the Los Angeles office will diversify its imports from China. "Although machine tools are our main line, we have not yet secured an exclusive franchise for the US market. We therefore plan to extend our interest and import other Chinese products—notably native produce, minerals, and metals." 完

## THE TSING YI INVESTMENTS IN HONG KONG

Tai Tung Industrial Equipment Company, a joint venture between Cosmo Machinery Trading Company and Oriental Machinery Company, was established in 1975 to undertake construction of manufacturing and service facilities for Chinese machine tools in Hong Kong. Following lengthy application procedures, the company signed a lease for a three-acre site on Tsing Yi Island in February, 1977—the first of three China-backed industrial investments made in the newly-developed zone (the other two are a ship repair and maintenance yard for China's fleet and an oil storage depot for FEOSO, sole distributor of Chinese petroleum products in the territory).

When completed in 1979, Tai Tung's HK \$100 million project will consist of manufacturing facilities, a technical service and assembly center and a large warehouse for Chinese machinery, spare parts, and electric meters. The plant will employ 500 workers and have an annual output of HK \$30 million when it comes on stream. Chinese press reports state that the factory will be capable of assembling approximately six plants each year following start-up.

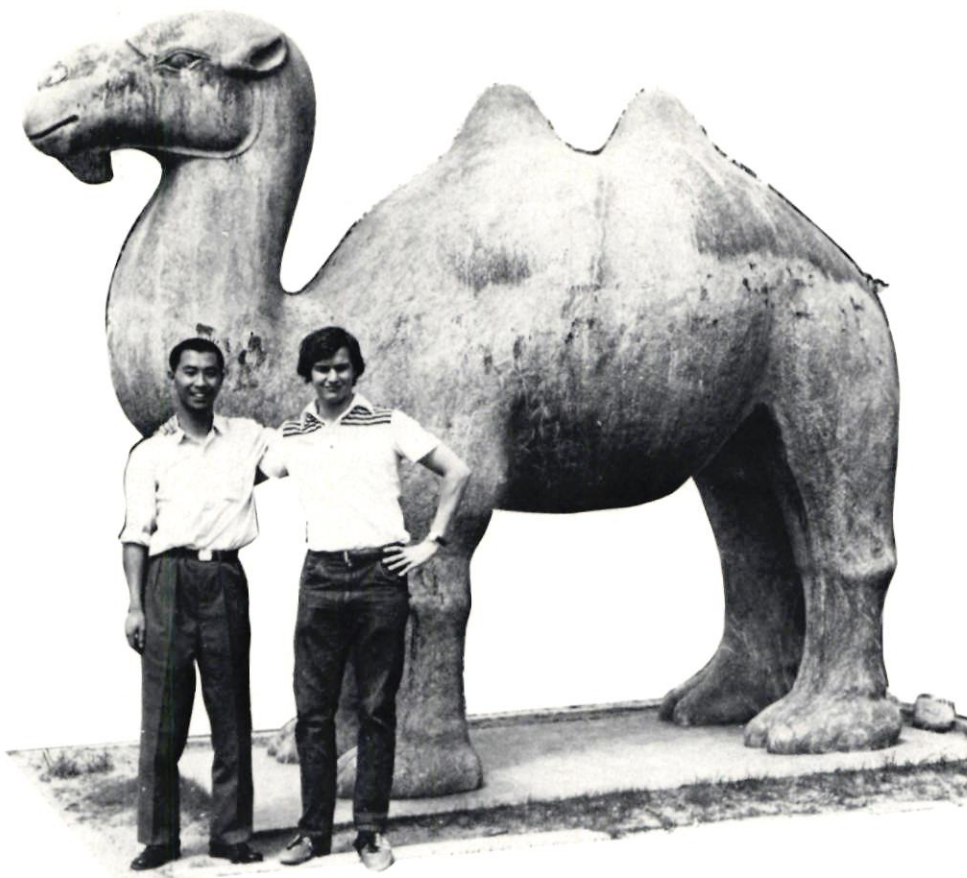
According to W. H. Choi, Managing Director of the company, the aims of the Tsing Yi investments are to establish a service center for Hong Kong-distributed machine tools; to provide assembly and coordination facilities for China's complete plant exports, particularly to Third World countries; and to engage in production of units and components.

"Some machinery manufactured in China needs to be assembled in Hong Kong, especially complete plants for sugar processing, ice-making, etc. In such cases, machines must be grouped and coordinated, with necessary adjustments made according to the customer's requirements. For complete plant transactions, the plant will keep in close contact with our principal in Peking and with overseas customers." Although the primary focus of these activities will be on Third World deals, "modification of units destined for the US market which arise from differences in electrical and metric systems will also be carried out."

Without engaging in production of units and components, Mr. Choi stated, "Tai Tung could not afford such a large investment." The company's management intends to finance the project without seeking loan facilities, but senior managers acknowledge that several sister banks of the Bank of China in Hong Kong "have shown interest in assisting us."

Mr. Choi stressed that production in Hong Kong does not imply competition with MACHIMPEX. "Whenever we can secure regular supply, we will not compete with our principal. Our production is aimed at complementing their production through manufacturing units not currently made in China or components which call for exacting specifications not undertaken in China."





# THE WESTERN IMPACT ON THE ORDINARY CHINESE CITIZEN

Michael Rank

*When the American businessman goes to China, what can he expect? What interest do the Chinese have in foreign culture? What is the impact, if any, of the West on the man-in-the-street in the PRC? The visiting businessman, used to seeing advertisements for Chinese products in the American press, is also interested in the potential market for US products in China. Will there ever be open acceptance of Western products in China? The PRC's attitude towards outsiders is a fascinating subject. Catch-22 translated into Chinese? Shakespeare? Thomas Hardy? Read on . . . this article is by an English student who had the unusual opportunity to live and study at Chinese universities in Peking and Shanghai, 1974 through 1976.*

*Michael T. Rank was a British Council student in China, 1974-76. He studied at Peking Languages Institute, Peking University, and Fudan University, Shanghai, during his stay. Mr. Rank has a degree in Chinese from Cambridge University.*

In the heyday of the Empire, the Chinese looked down on all foreigners as cultural inferiors dwelling beyond the pale of civilization, who were, therefore, to be treated with the utmost condescension. Foreign states bordering on China presented tribute in the form of periodic missions to Peking, where they performed the "three kneelings and nine prostrations" before the Emperor. The idea of trading relations on an equal footing was unheard of; and, in the early nineteenth century, the Westerners' insistence on their right to sell their goods to the Chinese came as a fatal blow to the already crumbling Ching dynasty.

Following the century that passed between the Opium War of 1841 and the Liberation in 1949, China's relationship with the outside world underwent a fundamental transformation. China is no longer an exploited semi-colony at the mercy of foreign entrepreneurs and adventurers but has "stood up" and, through its policy of self-reliance, has earned the respect of the entire world. A foreigner strolling



around Peking or Shanghai no longer hears people muttering "Yang guizi" (foreign devil).

Despite extensive foreign exploitation before the Communist takeover and the Sinocentric slant of the propaganda that blares out from loudspeakers in every school and factory, considerable goodwill toward foreigners still exists among ordinary Chinese. People would often shout "Hello!" at us in English as we cycled around Shanghai, and it was heartening to note that those who did so were generally young and had grown up since 1949.

Foreigners in China are real crowd-pullers; only in Peking are people quite blasé, taking little notice of foreigners on the streets. Elsewhere, a foreigner should expect to be followed by people, especially if he decides to explore the side streets or stops to take pictures. If he utters a few words of Chinese in the course of buying an ice cream or a souvenir, he is bound to hear whispers of "*Putonghua, jiang de bucuo*" ("He speaks pretty good Mandarin"), and children will point excitedly and cry "*Waiguo ren!*" (Foreigner!) to their parents' obvious embarrassment.

The crowds gathering around foreigners are sometimes so large that they have to be dispersed by the police. I remember when some friends and I were besieged by several hundred residents of Changsha. A policeman eventually arrived and told the crowd, "OK, let's give them a big hand and then let them get on with their shopping in peace." Clapping is a way of expressing welcome in China today, and we dutifully clapped back at them in the vain hope that we would be able to stroll around Changsha without the assistance of half the city's population.

### Curiosity and Incomprehension

The expression on the faces of the people in the crowds is strange and disconcerting. Although certainly not hostile, the main ingredients in the stares seem to be curiosity and incomprehension. People are curious to see in the flesh these strange beings that they have only read about—and none too flatteringly at that. After all, unless these round-eyed, pink-skinned foreigners are fraternal Albanians, they must be members of the "second world" bourgeoisie; and the bourgeoisie, of course, exploit the workers. It is almost impossible to draw anyone into conversation, so the best thing to do is to keep moving regardless of the crowds and stop as seldom as possible.

Without doubt, the most frustrating aspect of living in China is the problem of making personal contact with the Chinese. For embassy staff and journalists, close contact is virtually impossible, for they are obliged to live in a "diplomatic ghetto" in Peking, with armed guards to check every Chinese who enters. Most foreigners employ Chinese domestic staff, but they are in such an exposed position that it would be extremely tactless for a foreigner to attempt to engage his cook or *ayi* (nanny) in a political conversation.

Neither are Foreign Ministry officials much more forthcoming; and before the downfall of the "gang of four," journalists in Peking used to complain that the only official who was at all frank was the Foreign Minister himself.

Foreign students are in a different position, however. Most of them have one or two Chinese roommates, with whom they can practice their Chinese and, sometimes, form fairly close relationships. But, as the main criterion for entering a university was political "correctness" rather than intellectual curiosity, few Chinese students whom I met showed much interest in the West; and they almost invariably resorted to the current clichés and slogans when discussing Chinese problems with us.

It was extremely depressing to find that Chinese students study English by reading *People's Daily* articles in translation, and I spent many hours trying to persuade my roommate and his friends at Peking University that "the right deviationist wind to reverse previous correct verdicts" could hardly be called English at all. After a great deal of discussion, some students grasped my point, but they had no real say in the content of their course; and they knew that to protest would land them in serious trouble.

### "You Say What You Think!"

China is, after all, a highly conformist society, and "individualism" is one of the dirtiest words in the Chinese political vocabulary. An unusually open-minded student in Shanghai once said to me, "You're amazing, you foreigners. You say what you think!"; that remark encapsulates the huge gap that existed between our roommates and ourselves.

The lack of curiosity concerning the West on the part of Chinese students is hardly surprising considering that China has always considered itself the "Middle Kingdom," a self-sufficient empire with little need for anything the outside world could offer. Even today, Chinese newspapers contain little news about the West except for strikes and inflation; this is the result of four thousand years of introspection, combined with a regime that considers anything Western as bourgeois and potentially dangerous.

Nevertheless, the Chinese public is better informed about world affairs than is generally realized. Apart from *People's Daily*, most Chinese workers also have access to a daily four-page tabloid entitled *Cankao Xiaoxi* (*Reference News*), which contains a much more rounded summary of international affairs. It consists entirely of translations from foreign newspapers and prints articles from a broad spectrum of the world press, from the *New York Times* to *Pravda*, sometimes even quoting Taiwanese newspapers.

Its readership is by no means restricted to cadres and Party members; but it is a *neibu* (internal) publication, which means that foreigners are forbidden to buy it, and officials are reluctant to discuss its contents.



This is highly ironic, because if it were generally known in the West that the Chinese public is kept reasonably well informed on world affairs, it would only enhance China's image abroad.

*Cankao Xiaoxi* does not report only world news; it also informs its readers on developments in their own country. For example, by quoting Western news reports, it kept the Chinese people informed of the state of Chou En-lai's health. When *Cankao Xiaoxi* publishes articles by foreign journalists on the political significance of actions taken by the Chinese government, this can be taken as confirmation that the foreign journalist's interpretation (which many Chinese would have made independently) was the correct one.

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*My roommate told me that before the Cultural revolution, he, too, used to listen to music for pure enjoyment, but now he realizes such music is bad because it numbs his revolutionary fervor. Thereafter we avoided the subject of music.*

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### American Supermarkets

*Cankao Xiaoxi* is presently strongly anti-Soviet in tone, and its lead story usually concerns the build-up of Soviet arms or Soviet violations of European or Japanese fishing limits. It contains little except strictly political news, although I once saw an article in it on the increasing popularity of Chinese vegetables in American supermarkets. "Soviet revisionist" literature is frequently attacked in the press for propagating bourgeois values, but other than that, Western culture is not so much reviled as ignored in China today.

In 1966, at the beginning of the Cultural Revolution, Chiang Ching attacked "rock and roll, jazz, striptease, impressionism, symbolism, abstractionism, fauvism, [and] modernism" as forms "intended to poison and paralyze the minds of the people." Although philistine attacks on Western culture ceased to appear in the Chinese press well before the downfall of Chiang Ching and her infamous "gang," it is, nevertheless, disconcerting and rather depressing for a foreigner living in China to find his culture completely ignored.

One cannot help feeling that even if they attacked us for our "decadence" (as is done in the Soviet Union), it would at least be a recognition that we do produce art and literature. As it is, China seems extraordinarily parochial in its interests, concerned with the outside world only insofar as it affects China's own security.

### Not Totally Isolated

Although the authorities do their best to make it appear so, China is not, in fact, totally isolated from foreign culture. Just as there are *neibu* newspapers, so are there *neibu* books, which foreigners are also forbidden to buy. Most *neibu* books are translations of foreign works, but as Chinese students were generally careful to keep them hidden from us, it was difficult to ascertain exactly what kind of books are published in this way.

Foreign students studying Chinese literature at Peking University were officially lent copies of the *neibu* translations of *Love Story* and *Jonathan Livingston Seagull*, so that they could study the attack on the latter that appeared in the January, 1974, issue of *Xuexi yu Pipan* (*Study and Criticism*), the now defunct journal of the "gang of four." The article attacks the "subjective, idealist philosophy" propounded in the book and notes that it has been acclaimed not only in America, but also "in every imperialist, revisionist, and reactionary country that is in the throes of a severe crisis."

*Jonathan Livingston Seagull* and *Love Story* are, as far as I know, the only Western novels that have been published in China since the Cultural Revolution, and, being *neibu*, their circulation is very restricted. But a comparatively large number of *neibu* books have been published on current affairs, including a biography of Henry Kissinger and two volumes of Gerald Ford's speeches. Joseph Needham's *magnum opus*, *Science and Civilisation in China*, is also appearing as a *neibu* publication.

### Shakespeare, Balzac, Thomas Hardy— and Catch-22

Although few foreign works apart from science textbooks are published in China today, students are relatively fortunate, since university libraries are well stocked with translations that appeared before the Cultural Revolution. Fudan University, Shanghai, was more liberal than Peking University in its library policy, and students were permitted to browse in the foreign literature stacks, although not necessarily to take the books to their rooms. I found most of the Western classics, such as the works of Shakespeare, Balzac, and Tolstoy, and one of my roommates was particularly fond of the novels of Thomas Hardy.

The library also had some recent American books in English. These were not listed in the card catalog, but I once saw *The Family*, Ed Sanders' account of the Manson murders, on a shelf behind the counter. Occasionally, I saw a young teacher in the canteen who usually had a novel by Graham Greene or C. P. Snow rather ostentatiously sticking out of his bag.

He told me he was doing research on the modern English novel and amazed me still further when he divulged that he was translating *Catch-22*. He was



understandably reluctant to discuss how or why he was engaged in such a project (the published translation would no doubt be *neibu*), but the news that the adventures of Yossarian and Major Major Major Major were to appear in the People's Republic caused a sensation among the twelve foreign students at Fudan.

The most recent news is that "Midsummer Night's Dream" is to be officially translated into Chinese, suggesting a new era of Shakespeare studies in China.

If the Chinese have little knowledge of Western literature, they know even less about Western music. Records and sheet music by Western composers have been unavailable in the stores since the Cultural Revolution, and Western music, like Western literature, is generally ignored in the press. But there is a strange paradox: despite the fact that Western music is held in low esteem in China, the revolutionary model operas that dominate the musical scene today owe an enormous amount to the Western musical tradition. They are heavily influenced by Russian late romantic composers such as Tchaikovsky and Rachmaninoff, neither of whom by any stretch of the imagination could be considered proletarian composers.

These operas are highly didactic in tone, and most of them depict the heroic struggle of the Chinese people against Japanese aggression in the 1930's and 1940's. The campus loudspeakers used to play music from the operas for several hours a day; but when it was reasonably quiet outside, I used to listen to my own tapes of Bach and the Beatles. My roommate told me that before the Cultural Revolution, he, too, used to listen to music for pure enjoyment (Cuban dance music, in his case); but now he realized such music was bad because it numbed his revolutionary fervor. My roommate and I avoided the subject of music after that short discussion, but I continued to listen to my tapes when he was out of the room.

The recent Beethoven concert in China has attracted a great deal of attention in the Western press, and it is certainly an encouraging sign, especially because it was televised. When the Philadelphia Orchestra visited China, it played to an elite audience selected from government departments and army units loyal to Chiang Ching. Beethoven and Mozart have now been brought to a much wider audience; but until there are more such concerts, it will be too early to speak confidently of a cultural "thaw" in China.

### Skirts in Shanghai

Western influence in more mundane matters is also slight but still quite noticeable. Nowhere is it more obvious than in the way people dress: The traditional long gown and slit skirt have completely disappeared and have been replaced by the essentially Western "Mao jacket" and pants. In Shanghai, which has always had a reputation for smart clothes, youths with wavy, slicked-back hair à la Elvis Presley roam the streets. Women are wearing skirts above the knee in this city

and even, for the first time, dresses.

Western food has also made its mark. Although most of the students I met seemed to regard coffee as a dangerous narcotic, and the very smell of cheese would make them turn pale, Western restaurants are very popular with Chinese workers. In Peking in a Stalinist wedding-cake building formerly dedicated to Sino-Soviet friendship, there is a restaurant that serves Russian-style food, including excellent vodka and caviar.

My favorite Western restaurant in China is the De-da or German Great just off Nanking Road in Shanghai. German-owned and known as the Cosmopolitan before Liberation, the restaurant offers a house special consisting of hamburgers and water chestnuts served on British Royal Air Force plates with YMCA silverware. We would often drop in to talk with Lao Du, a waiter who had worked there for almost forty years, and to watch Chinese families eating chocolate cake and tomato soup with chopsticks.

Consumer goods such as television sets and record players are becoming more widespread, and one store in Nanking Road in Shanghai even displays a Chinese-made cassette tape recorder in its window. Self-sufficiency is the keynote; despite the increasing number of luxuries available to the Chinese public, almost nothing on sale is imported. The only exceptions are Swiss and Japanese watches costing over \$200 and, even more surprisingly, cigars from revisionist Cuba.

### Bubble Gum

China often copies ideas from the West without actually importing Western articles. These ideas range from the fountain pen to bubble gum, which is sold mainly at the time of the Chinese New Year. And the country that introduced tea to the world now makes diplomatic families feel at home by selling tea bags at the Peking Friendship store.

Of course, the lack of foreign goods in the stores and the restrictions on Western cultural influences within China do not mean that foreign products and culture will not become more important for China in the future. The apparent liquidation of the "radicals" as a political force and the rehabilitation of pragmatist Teng Hsiao-ping will help to increase commercial and cultural exchanges between China and the West in coming years.

Expanded contacts with foreign influences can only serve to ameliorate the traditional barrier that has existed between China and the rest of the world. Nevertheless, such accusations as "The 'gang of four' . . . enjoyed the decadent culture of imperialism and wallowed in the Western way of life. . ." (Hsinhua, 15 December 1976, quoting *People's Daily*) indicate that China does not yet feel comfortable about being one nation among 150 rather than the "Middle Kingdom," and that unqualified optimism about China's relations with the West cannot be justified. 完



# MEAT PROCESSING IN THE PRC

## A Glimpse of Chinese Inspection Procedures

*For every US importer of foodstuffs from the PRC, the question of health standards arises: What are China's inspection procedures? Rabbits from China, however, classified as "white meat," are not subject to USDA requirements and have been imported into the US in large numbers. David Cookson, Chairman of the Council's Foodstuffs Committee, was able to visit a meat processing plant in Shanghai in April of this year to find out what kind of sanitary conditions exist in China. This is his report.*

The Shanghai Meat Processing Factory is located a short drive from the Peace Hotel in an industrialized area of the city. The facility was built by the British in 1931, and, until 1973, the main building was used for slaughtering up to 10,000 pigs per day. Sanitary requirements and, presumably, the proximity of commercial and residential properties, forced the removal of that operation to the suburbs.

The six-story building is now rather run-down with only one floor housing the rabbit operation. The rabbits—mainly native and New Zealand strains—are taken from the communes to local collecting centers when they are around five months old and finally arrive at the slaughterhouse where they are put in "pens" of twenty to thirty for 24 hours of rest and recuperation. This period is used to check that the animals are physically healthy.

All plant operatives wear white protective clothing, including face masks and rubber boots. On entering the work area, everyone must walk through a disinfectant "boot bath." Water is constantly run across the floor of the work area.

The facility employs about 120 workers. Like so many manufacturing plants in China, the conveyor-style processing equipment was developed by the workers themselves. The plant is run by a Mr. Pan with the day-to-day operations supervised by two production managers. Up to 2,500 rabbits per hour can be processed.

The animals are humanely killed by electric shock and the head, fur, and main entrails removed (the

fur, incidentally, eventually ends up with the China Native Produce Corporation for export). The carcass is washed while on a conveyor system and then receives its first inspection. Any disfiguration or unusual colorings of the heart, liver, or kidneys will result in a rejection.

After this, a suction device removes all traces of blood and minor organs, and a second inspection is made on all body muscles. Any abnormalities, such as too much meat on the breast, again brings about rejection. These rejects are sold domestically; all the remaining production is for export markets.

A further "cleaning-up" process occurs, culminating in passage through a high frequency ultra-violet ray cabinet. At this point the carcasses are weight-graded electronically into minimum 600-gram (1 lb-5 $\frac{1}{6}$  oz) and 1,000-gram (2 lbs 3 $\frac{1}{6}$  oz) sizes with, if required, a third category going to a separate operation which can hand-debone a rabbit in two minutes.

Before being put into attractive individual polyethylene "sleeves," random samples are taken by a technician who prepares a tissue culture in the factory's laboratory to determine the bacteria count. It is at this stage of the processing that the China Commodity Inspection Bureau (CCIB) takes samples for preparation of the official Inspection Certificate. The determinations of the CCIB are completely independent of the factory, and their quality/analytical findings will decide whether or not the product may be exported.

While sanitary conditions at this factory would not compare with a modern, ultra-automated American facility, it was, nevertheless, obvious that great care was being taken to insure maximum levels of cleanliness and hygiene. One measure of the effectiveness of the Chinese inspection is the minimal number of detentions of Chinese rabbits by the FDA.

To the importer it is unfortunate that Chinese pricings, considering a 20% import duty, give no incentive to importers to develop a full-scale sophisticated marketing program, such as that for Polish hams, to advertise and promote the product. This way the rigorous inspection procedures in China would be really beneficial.

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# HOTEL RATES IN CHINA, 1977

Hotel	Rates in RMB/date	Comments
<b>FUSHUN</b> Fushun Guest House	15 (8/77)	Bedroom with two twin beds, private bath, sitting room with radio
<b>HANGCHOW</b> Hangchow Hotel Huanhu Bei Road	10-14*	Twin bed room
<b>KWANGCHOW</b> Bai Yun Guest House Huan Shi Road East Tel: 67700 T C P 23-story	26 (12/77)	Single room with bath and shower
Tung Fang Guest House People's Road North Tel: 33070 C P	38 (8/77) 22 (8/77) 25 (12/76)	Large sitting room, bedroom with two beds and bath. Single room with bath and shower Single room with two beds
<b>NANKING</b> Nanking Hotel Chung Shan Road North C P 2-story	38 (11/76) 18 (11/76)	Large suite Single
<b>PEKING</b> Mindzu Hotel Chang An Blvd. Tel: 668541 11-story	14 (11/77)	Single room with twin beds, vanity, dresser, and bath
Peking Hotel Chang An Blvd. Tel: 522231 or 566531 C P 17-story	24 (11/77) 50 (8/77) 100-120 (8/77)	Suite in the old wing A/C; single room with two twin beds, desk, vanity, private bath A/C; bedroom and sitting room with television, soft chairs and sofa, private bath A/C; full sitting room, dining room, bedroom with sitting room, and private bath
<b>SHANGHAI</b> Ching Chiang Hotel Huai Hu Road 11-story T	24 (8/77)	Large bedroom with coffee table and chairs, desk, and chest of drawers; A/C 25% extra
International Hotel Nan Ching Shi Lu, 170 Tel: 291010 20-story	14 (4/77)	Suite
Peace Hotel Nan Ching Tung Lu Tel: 291244 T C PH P 9-story	38 (12/76) 48 (4/76)	Large suite with living room, dining room, private bath; Heat 15% extra Large suite with living room, dining room, private bath; Heat 15% extra
Shanghai Mansions Wusong Road P 14-story	22 (12/76) 38 (6/77) 19 (6/77) 16 (6/77)	Single room Suite with balcony overlooking river; Heat 15% extra Suite; Heat 15% extra Single; Heat 15% extra
<b>TATUNG</b> Tatung Guest House	34 (8/77)	Suite
<b>WUSIH</b> Tai Hu Hotel	9* 12*	Twin bed room

T—Telex Facilities C—Cable Facilities P—Postal Services PH—Phototransmission Facilities

\* Mike Hooser, JAL Companion Guide to the People's Republic of China (Japan Air Lines, 1975)





Members of the CHINAPACK delegation atop the World Trade Center.

## Council Activities

A landmark Sino-US conciliation case brightened a dull fall for American China traders. The case, involving Walter Sterling Surrey, the Chairman of the National Council's Legal Committee, took place in Peking in November under the joint auspices of the CCPIT and the American Arbitration Association. Progress was made in tough negotiations, serving to improve mutual understanding about conciliation procedures that will certainly benefit China traders in the long run. Aside from that, CHINAPACK's delegation to the US was intrigued by the idea of a logo to identify all PRC export products. And the Council's first petroleum equipment delegation to China made presentations to seventy technical personnel in Peking before traveling on to Tsinan, Shengli oil field, Shanghai, and Canton.

### PACKAGING STUDY GROUP TOURS AMERICA, HOSTED BY NATIONAL COUNCIL

As part of a recent survey of international packaging technologies, the China National Export Commodities Packaging Corporation (CHINAPACK) accepted a National Council invitation and spent three weeks this fall touring the American packaging industry. After arriving in Washington, DC, on October 22, the eight-person delegation traveled to twelve other American cities, met with seventeen US companies involved in packaging, toured fifteen packaging plants, visited four packaging research facilities, and attended four seminars on packaging in the United States. In addition, the Chinese team inspected three American supermarkets and three more large department stores.

Although the newest Chinese foreign trade corporation, founded in August, 1974, CHINAPACK has already developed close ties with the American packaging industry. Of the American companies visited by the delegation, twelve had previously sent representatives into China to hold talks with the Packaging Corporation. The National Council, itself, at the invitation of CHINAPACK arranged a delegation of eight representatives of the American packaging industry that traveled to China in June, 1977, to present a technical seminar and tour Chinese packaging facilities.



## Particular Areas of Interest

While describing themselves as a survey team, members of the CHINAPACK delegation concentrated their efforts on four aspects of packaging during their trip: easy-open can manufacture, lighter-weight bottle production, printing on flexible packaging, and packaging requirements of the American consumer.

In the area of metal cans, the Chinese studied the various possibilities available for developing their nation's production of cans for beverages and foodstuffs. During a seminar at Alcoa's technical center in Monroeville, Pennsylvania, the group was introduced to the advantages of aluminum cans. Later, in Dayton, Ohio, the delegation met with Dayton Reliable Tool President Ernie Frazee, the inventor of the easy-open top, to discuss the introduction of easy-open can manufacture in China.

Also in Ohio, members of the delegation toured Minster Machine's factory where the majority of the world's can lid-making presses are manufactured. The delegation also held talks with Bliss company, a Gulf and Western subsidiary which produces presses for can manufacture.

In Chicago, the Chinese attended a day-long seminar at Continental Can's manufacturing plant, the largest can-making facility in the world at which the three types of beverage cans are produced—soldered, welded, and D & I.

In glass production, the delegation visited Owens-Illinois's newest bottle plant in Volney, New York. Only opened this past summer, the \$30 million O-I plant welcomed the delegation as its first visitors.

To study American printing techniques, the delegation visited Du Pont's laboratories to examine recent developments in synthetic printing plates for flexographic printing. Later, FMC flew the group to Green Bay, Wisconsin, to inspect a flexographic printing machine recently constructed, and in visits to Philip Morris's Milprint Division, the Chinese saw both flexographic and rotogravure printing presses in operation. During a visit to S.C. Johnson Company, inks used in flexible packaging printing were discussed.

One of the main functions of the trip was to introduce CHINAPACK, the FTC responsible for the packaging of all Chinese exports, to the requirements of the American market. Executives from PepsiCo, Canada Dry, and Sears Roebuck and Co. all held seminars to discuss their experiences in packaging for American buyers. Landor Associates, a leading packaging design company, gave the delegation a detailed introduction to the importance of packaging design.

In addition to their four main areas of interest, the delegation also visited the Fuller-O'Brien Company to inspect can coating manufacture and the Mead Company to see paper carton construction. While in Washington, DC, the delegation attended a seminar to introduce the American packaging industry held

## ARNE DEKEIJZER LEAVES COUNCIL

The National Council's representative in New York, Arne deKeijzer has left the Council to form his own consulting company, DeKeijzer Associates, which provides advisory services to the China trade. Mr. deKeijzer, who attended the fall 1977 Canton Fair, is also writing a travel guide to the PRC. The Council wishes him well in his new ventures.

by WJS, Inc., a China trade agency; representatives from the FDA and the Baker & McKenzie law firm addressed the delegation on the legal aspects of exporting foodstuffs to the United States.

## Favorably Impressed

Throughout the tour, members of the delegation, led by CHINAPACK Deputy General Manager Meng Jen-na, emphasized their favorable impression of American packaging equipment and technology, compared with other international suppliers. (CHINAPACK representatives have also visited Sweden and Canada this year and may also have toured Japanese and New Zealand packaging industries.) Although not empowered to sign contracts themselves, the Packaging Corporation seemed prepared to consider recommending the purchase of equipment or know-how for can manufacture and flexible packaging printing.

Experts also predict that the Chinese may be gearing up for the export of Tsingtao beer to Western markets, which is available only in bottles at the present time. The Chinese have, reportedly, imported a small trial can-making line from Germany to be ready for production late in 1978. After assessing the performance of beer exported in cans, Chinese officials will then commit themselves to a full-scale export program of beer in cans, bottles, or some combination, some observers reason.

The current attention to modern printing techniques and consumer demands apparently reflects an interest on the part of Chinese to export their products in more attractive packages. One proposal which seemed to intrigue members of the delegation was the suggestion that Chinese develop a trademark to appear on all of its consumer products sold abroad. Such a mark would identify the product as a PRC export to the potential buyer, thus guaranteeing its quality and value. In general, the Packaging Delegation was receptive and frank in discussing new ideas in the packaging of export commodities throughout their stay in the United States.

## Exchange to Continue

During an afternoon of presentations followed by a short reception, the National Council introduced the packaging delegation to the Packaging Machinery



Manufacturers Institute (PMMI), an industrial organization representing 150 US packaging equipment makers. During the meeting, PMMI extended an invitation to CHINAPACK to send a team to the 1978 International Packaging Exhibition to be held in Chicago next October. Interest was expressed by the Chinese in attending this biannual event, and the National Council is now working with PMMI officials to develop a continued exchange between that association and the People's Republic of China.

Besides being introduced to America's packaging industry, members of the CHINAPACK delegation were also exposed to several cultural events in the United States. The National Council arranged sight-seeing trips for the delegation in Washington, DC, and New York City. Gulf + Western hosted the delegation to a particularly elegant dinner on the thirtieth floor of its New York office building, complete with a quartet from the Juilliard School of Music, playing selections from the Chinese masterpiece, *The White Haired Girl*. Under the sponsorship of the S.C. Johnson Company, the delegation attended the University of Wisconsin-Purdue football game in Madison, Wisconsin, and then, two days later, was flown to the southern rim of the Grand Canyon for a one-hour tour. In addition to delegation leader Meng Jen-na, delegation participants included Lo Ning, Deputy Department Manager, CHINAPACK; Tai Kuo-chang, Director, China Light Industry Institute; Lu Chi-hsien, Head of Tech-exchange Section, CHINAPACK; Feng Jui-fang, Head of the Foreign Liaison Section, CHINAPACK; Hsu Huan-wen, Staff Member, CHINAPACK; Wang Chun-tang, Staff Member, CHINAPACK, Peking Branch; and Lin Yuan, Interpreter, CHINAPACK. Huang Tsien-mo from the Liaison Office of the People's Republic of China and Howell Jackson from the National Council for US-China Trade escorted the delegation.

#### **PETROLEUM EQUIPMENT GROUP TO CHINA**

Seventy Chinese technical personnel heard the National Council's petroleum equipment delegation give a series of seminars on oil well drilling, production, and transportation during the first week of their 18-day visit to the PRC. The eight-person delegation, which arrived in Peking on November 20, traveled to Tsinan, Shengli Oilfield, Shanghai, and Canton to survey Chinese drilling sites and manufacturing facilities. It was in China at the invitation of the China Council for the Promotion of International Trade (CCPIT). The mission was selected from member companies of the National Council's Petroleum Industry Committee by the Chinese.

Topics in which the Chinese expressed interest were deepwell cementing, deepwell completions, drilling bits, drilling fluids, flow measurement and control systems for oil and gas, and pipeline protection.

Robert W. Scott, Editor, *World Oil*, Gulf Publish-

ing Company, led the delegation. Other members were: Alf M. Barnes, Executive Vice President, Plico-flex, Inc.; Ken J. Henley, Manager of Product Information, Baker Packers; James L. Hickernell, Product Manager of Rock Bits, Reed Tool Company; J. M. Kelley, Technical Sales Engineer, B.J.-Hughes; Sidney Melear, Senior Technical Advisor, Milchem Drilling Fluids, Inc.; Roy N. Moore, Director of Asia, Mexico, and Central and South America, Reed Tool Company; and E. L. Upp, Senior Measurement Consultant, Daniel Industries, Inc. Stephanie Green of the National Council's staff was escort officer.

#### **MILESTONE CASE IN DISPUTE SETTLEMENT IN TRADE WITH THE PRC**

The first joint conciliation case under arrangements between the American Arbitration Association (AAA) and the Legal Affairs Department of the China Council for the Promotion of International Trade (CCPIT) has been successfully concluded. An American corporation and a Chinese foreign trade organization, assisted by an American conciliator appointed by the AAA and a Chinese conciliator appointed by the CCPIT, agreed upon terms for the friendly settlement of a commercial dispute which had arisen in US-China trade.

The unique arrangements for joint conciliation were developed in three years of discussions on dispute resolution initiated by the National Council for US-China Trade and carried on by the AAA and the Foreign Trade Arbitration Commission (FTAC) of the CCPIT.

The joint conciliation took place in Peking over a ten-day period in October. Although the first conciliation was in Peking, future cases may be conducted either in China, the United States, or at some other mutually agreed location. Before the conciliation meeting in Peking, the parties had exchanged written statements concerning the issues in dispute.

The conciliation was administered jointly by the AAA and the FTAC. Donald B. Straus, president of the AAA Research Institute, and Howard M. Holtzmann, chairman of the AAA International Arbitration Committee, attended the conciliation in Peking as observers and to assist in the administration of the case. Walter Sterling Surrey was the conciliator appointed by the AAA.

Commenting on the conciliation, Mr. Straus said: "The successful conclusion of the first joint conciliation is a historic step forward in promoting US-China trade. Chinese and American conciliators have shown that they can work together to help parties resolve disputes in a friendly way which encourages future business relations."

The AAA and the CCPIT have begun to review the experiences of the first case with the aim of further improving the process of joint conciliation. While in Peking, Mr. Straus and Mr. Holtzmann had extensive consultations for this purpose with Mr. Jen Tsien-



hsin, head of the Legal Department of the CCPIT and Secretary General of the FTAC. Also discussed were various arrangements for arbitration, including arbitration in a third country when the parties mutually agree. Together with Mr. Surrey, Mr. Straus and Mr. Holtzmann had discussions with Mr. Wang Yao-ting, chairman of the CCPIT, and Mr. Hsiao Fang-chou, who is vice chairman of the CCPIT and chairman of the FTAC.

American companies which wish to use the facilities of joint conciliation for resolving disputes in US-China trade may secure information from Walter Sterling Surrey in Washington, DC, at (202) 331-4040 or the AAA in New York at (212) 977-2084. Use of the joint service does not constitute submission to the jurisdiction of the FTAC or the AAA for purposes of arbitration, if the joint conciliation does not result in resolving the dispute, and is not intended to supercede any existing contractual provisions. 完

#### IMPORTANT NOTICE FOR MEMBERS

Walter Sterling Surrey, general counsel of the NCUSCT, held meetings recently in Peking with Mr. Jen, chief of the CCPIT Legal Department. They agreed that the CCPIT and the NCUSCT should devote their efforts to avoiding disputes and to this end, through the National Council, Walter Surrey should obtain from NCUSCT members clauses in standard or specific contracts deemed troublesome (with the reasons) by the member. The identity of the submitting US company can be held confidential. Members of the NCUSCT are urgently requested to cooperate in this effort by mailing such information to the Council, attention Walter Surrey, so that planned follow-up meetings with the Legal Department of the CCPIT can lead to better contract clauses.



**Above:** Will China be exporting clothes on the rack? Mr. Meng, leader of CHINAPACK mission, looks at hanger in Milwaukee Sears Roebuck; **above right,** stages of making a can: Tai and Hsu at Minster Machine, Ohio; **right,** looking at FMC's flexographic printer, Green Bay, Wisconsin.



**FLIGHTS TO THE PEOPLE'S REPUBLIC OF CHINA**  
(Destination Peking unless otherwise indicated)

Day of Week	Originating City	Airline	Flight No.	Departure Time	Arrival Time*
<b>VIA EUROPE &amp; AFRICA</b>					
Wednesday	Addis Ababa	Ethiopian	ET772	1300	0645+1
	Paris	CAAC	CA932	0930	0700+1
Thursday	Moscow	CAAC	CA908	2210	1105+1
	Athens	AF	AF178	1725	1220+1
Friday	Paris	AF	AF178	1230	1220+1
	Bucharest	CAAC	CA942	1715	1100+1
Saturday	Moscow	Aeroflot	SU571	2225	1105+1
	Tirana, Albania	CAAC	CA942	1430	1100+1
Sunday	Addis Ababa	Ethiopian	ET770	1300	0645+1
	Athens	Swissair	SR316	2305	1900+1
	Bucharest	Tarom	RO311	1920	1500+1
	Geneva	Swissair	SR316	1845	1900+1
	Zurich	Swissair	SR316	1710	1900+1

**VIA ASIA**

Monday	Bombay	Swissair	SR316	0950	1900
	Hanoi	CAAC	CA182	1305	1835
	Karachi	Tarom	RO311	0515	1500
	Tokyo	JAL	JL785	0900	1530(OS)
Tuesday	Tokyo	PIA	PK753	1315	1705
	Tehran	Iran Air	IR800	2230	0930+1
Wednesday	Tokyo	CAAC	CA922	1615	1950
	Bombay	Ethiopian	ET772	2120	0645+1
Thursday	Karachi	CAAC	CA932	2115	0700+1
	Tokyo	JAL	JL781	0840	1245
Friday	Tokyo	Iran Air	IR801	1700	2115
	Karachi	PIA	PK750	1915	0500+1
Saturday	Tokyo	CAAC	CA927	1505	2055(OS)
	Hanoi	PIA	PK751	1315	1705
Sunday	Karachi	CAAC	CA182	1305	1835
	Pyongyang	AF	AF178	0235	1220
Sunday	Tehran	CAAC	CA904	1140	1220
	Bombay	Iran Air	IR800	2230	0930+1
	Karachi	Ethiopian	ET770	2120	0645+1
	Rawalpindi	PIA	PK752	1745	0515+1
	Tehran	PIA	PK752	2045	0515+1
	Tokyo	CAAC	CA942	0005	1100
	Tokyo	AF	AF179	1200	1605
	Tokyo	Iran Air	IR801	1700	2115

Note: OS indicates routing via Osaka and Shanghai.

**AND BACK TO THE US**  
(Originating in Peking unless indicated)

Day of Week	Airlines Boarding	Flight No.	Connecting	Flight No.	Departure Time	Arrival Time*	Via
<b>FLIGHTS TO NEW YORK CITY</b>							
Monday	PIA	PK752	Northwest	NW4	0635	1855	Tokyo
	JAL	JL786	JAL	JL006	1640	1015+1	Tokyo
	Swissair	SR317	Swissair	SR100	2040	1440+1	Zurich
Tuesday	PIA	PK753	PIA	PK703	1815	1815+1	Karachi
	CAAC	CA921	Northwest	NW8	1030	1915	Tokyo
Wednesday	Iran Air	IR800	Northwest	NW8	1030	1915	Tokyo
	JAL	JL782	JAL	JL006	1355	1015+1	Tokyo
Friday	Iran Air	IR801	Iran Air	IR777	2215	1545+1	Tehran
	JAL	JL782	JAL	JL006	1630 (S)	1015+1	Tokyo
Sunday	PIA	PK750	Northwest	NW4	0635	1713	Tokyo
	PIA	PK751	PIA	PK711	1815	1815+1	Karachi
	CAAC	CA923	Northwest	NW4	0725	1855	Tokyo
Sunday	CAAC	CA923	Northwest	NW4	0955 (S)	1855	Tokyo
	Iran Air	IR800	Northwest	NW8	1030	1915	Tokyo
	Iran Air	IR801	Iran Air	IR779	2215	1430+1	Tehran
<b>FLIGHTS TO SAN FRANCISCO</b>							
Monday	PIA	PK752	Northwest	NW10	0635	1805	Tokyo
	JAL	JL786	JAL	JL002	1640	0855+1	Tokyo
	PIA	PK753	PIA	PK703	1815	0016+2	Karachi
Tuesday	CAAC	CA921	Northwest	TW701			New York
	CAAC	CA921	Northwest	NW10	0715	1805	Tokyo
Wednesday	JAL	JL782	JAL	NW10	0945 (S)	1805	Tokyo
	Iran Air	IR800	Northwest	JL002	1355	0855+1	Tokyo
Friday	JAL	JL782	Northwest	NW10	1030	1805	Tokyo
	CAAC	CA923	JAL	JL002	1630 (S)	0855+1	Tokyo
Saturday	PIA	PK751	Northwest	NW10	0725	1805	Tokyo
	CAAC	CA923	PIA	PK703	1815	0016+2	Karachi
Sunday	CAAC	CA923	TWA	TW701			New York
	AF	AF178	Northwest	NW10	0955 (S)	1805	Tokyo
	Iran Air	IR800	Northwest	NW10	1355	1805	Tokyo
			Northwest	NW10	1030	1805	Tokyo

\* + 1 or + 2 indicates flight arrival on the first or second day, respectively, after flight departure date; arrivals local time.

Note: S Shanghai departure time.

Source: Official Airline Guide: Worldwide Edition November 1977



# EXCLUSIVES FROM THE PRC

Sally Winder

*As China's exports to the US have expanded—to over \$200 million in 1977—exclusive import rights to Chinese product lines have been granted to an increasing number of US firms. This trend has continued even as the Chinese themselves have established a sales office in the US (see story in this issue). American importers have exclusives from the Chinese on products ranging from teas to types of nails. The following story, by a member of the Pennsylvania Bar and research assistant at the National Council, describes exclusives from the PRC, the different kinds that exist, the problems of similar items from different FTC branches, and the legal aspects. To which law is an exclusive contract subject: American or Chinese? The sequel to this piece examines the contents of typical exclusive agreements with the Chinese.*

The majority of US exclusive distributor contracts for Chinese products involve textiles and light industrial products. For the most part these items are consumer items such as straw handbags, flannel shirts, and baskets. Foodstuffs also lend themselves easily to exclusive arrangements as do machine tools and hardware produced by Machinery Corporation (MACHIMPEX) and nails produced by the Minerals and Metals Corporation (MINMETALS). For details, see the box accompanying this piece.

Liquors, wine and beer were also initially subject to exclusive distributorship contracts in the early years of PRC-US trade. Due to the difficulty of supply and performance problems on both sides, the exclusives were allowed to lapse.

The common characteristics of goods covered by exclusives are their relatively small size, wide market range, and ease of distribution through massive, nationwide systems. Typically, these factors make an exclusive contract attractive to both the Chinese FTC and American importer. From the Chinese point of view, these items may be manufactured in large quantity, packaged and shipped conveniently, and sold to a large range of American consumers.

The FTCs view these items as an important factor in improving the overall balance of payments in Chinese foreign trade. For although China does not



China Black Tea on pier at San Francisco, at announcement of exclusive marketing arrangement by Armanino Marketing Corp., August 22, 1975. UPI Photo.

seek to balance its foreign trade with individual nations, it actively seeks a balance in overall foreign trade. To offset large purchases of technology and know-how, China has begun pushing its small manufactured finished item exports which produce higher rates of earned revenue than does sale of unprocessed foodstuffs, semi-finished greige goods, and other unfinished products.

Sale of manufactured finished items appeals to



## LIQUOR EXCLUSIVES

The problem of market entry for Chinese beverage exclusives is obvious when one considers that less than one percent of the beer consumed in the US is imported. Of that, Heineken and Lowenbrau account for approximately seventy percent. In addition, every importer must have state and national licenses, register the labels with the Office of Alcohol, Tobacco, and Firearms of the Department of the Treasury, and comply with state distributorship regulations.

Some states require establishment of separate local companies before a company is allowed to distribute alcohol imported from another jurisdiction. California, to complicate matters, has different laws for northern and southern parts of the state.

Of the eight companies which held licenses and approved labels for marketing China's well-known Tsingtao Beer in the US in 1976 only two or three **appeared to be actively engaged in importing it.** Tsingtao Import Company of Oakland is handling small amounts of the beer in San Francisco and Denver. Nanyang Trading Company is also active in San Francisco. The third importer is Wine Imports Inc. in New Jersey. Its label was approved November 26, 1975. A fourth company was invited by the Chinese to enter the East Coast market.

American importers too. Articles immediately available for mass consumption can be distributed to retailers and sold at a high turn-over rate. Distributors can assure the retailer or end-user a steady, predictable supply, and promotion of one successful item or line of goods means profit and prestige for the exclusive distributor. His impact on the market becomes greater and his monopoly on that particular item may provide a competitive edge.

### THE SELECTION PROCESS—WHO OBTAINS EXCLUSIVES AND WHY

The first decision an importer faces is what items he wants included in the exclusive distributorship. In most cases the decision has already been shaped by past experience in the Chinese market and investment in developing the US market for a particular line of imports. Potential demand for the product, constancy of quality and supply, and distinctiveness of product are all considered.

With few exceptions, Chinese foreign trade corporations grant exclusives to US importers who can demonstrate market development and successful investment in expanding sales of Chinese products. But they will also be influenced by the company's success in marketing other imports of the type under consideration for an exclusive.

In some cases the exclusives in the US were granted

to the first customers in the Chinese market who purchased large quantities initially and worked with the FTC providing feedback information on popularity and marketability of designated designs, styles, and packaging.

If Chinese trade officials are presented with figures showing business promotion and increased volume, then they are willing to trust that importer as a leader in the field. That one importer and his distribution network is viewed as a more reliable, larger volume outlet for Chinese exports than the total of scattered, individual sales to smaller importers and retailers.

Chinese trade agencies are most likely to choose an agent who specializes in the relevant market. This does not mean that a diversified importer cannot be granted an exclusive. So long as it handles a variety of products with some expertise and experience in each item, the diversified company will not be excluded from consideration.

Therefore, the composite ideal company chosen to receive an exclusive is the company that has been trading with China in particular goods for several years. This company should have a nationwide high volume distribution system capable of handling large minimum orders required by exclusive contracts. The company should also have an increasing sales record and have maintained a good working relationship with China by providing the Chinese feedback information on American business practices, volume of Chinese sales, promotion for Chinese products, and suggestions for improvement and design.

From the standpoint of the American importer, it is also preferable to have experience in marketing the particular Chinese item before acquiring an exclusive. Testing the product in the American market and developing a distribution network is essential to handling the large quantities required under an exclusive. In most cases, Chinese goods are unfamiliar to American consumers. The design and trademark must be introduced, and the product must compete with all other domestic and imported brands in the market.

### How to be Undercut—The Effect of Competition from Other FTC Branches

The importer must also consider competition and pricing of similar products from other FTC branches in China. It is pointless to have an exclusive distributorship from one branch for a product similar to that produced by several other branches. Although these products may be distinct and separate items within the Chinese market, they are considered identical in the eyes of the American consumer.

For example, baskets and bags with flower and animal designs are made by Tientsin, Shanghai, and Kwangtung branches of China National Light Industrial Products Import and Export Corporation. Straw, grass and willow are all used and the baskets come both lined and unlined. All available combinations



are sold in the American market at competitive prices.

These goods are not distinctly different in the eyes of the American consumer. To some extent a purchase will be based on design, color and material, but price is the overriding consideration. Therefore an exclusive agent can justify market development and promotion for his product only if his product is distinct from the rest.

If it is not, the exclusive agent's investment aids his competitors by expanding their markets and allowing them to undercut his prices. As exclusive agent his promotional costs must be passed on to the consumer whereas his competitors may fill that new demand without incurring the market development costs.

Finding this situation true for some Chinese products, some American agents/importers feel that exclusives are not truly exclusive nor worthwhile. They are undercut by small importers and retailers who would normally buy through the distribution network; they can buy directly from China, however, and sell at a cheaper price.

To avoid this sort of undercutting, the importer may seek an exclusive for an item made by only one branch and produced in such a distinctive manner as to make it a unique article for consumers. For this item, the importer is able to plan potential demand and distribution so that return on marketing investment is commensurate with his ability to promote the product.

The usual practice in the China trade is to grant an importer an exclusive based on one class or category of items from one branch. For example, Boxer and Ashfield of New York have an exclusive which describes a class of bamboo plaited articles made by Shanghai branch of China National Light Industrial Products Import and Export Corp. These goods are all handmade articles of high quality distinct from cheaper, manufactured items available through other FTC branches and other Asian sources.

In this case, the exclusive agent has more control of his marketing strategy than the agent importing baskets from Tientsin. In the latter situation, similar baskets are produced and designs copied from several branches. As a result the competition from other branches has reduced the value of the Shanghai exclusive in the last two years.

### **Negotiating a Whole Product Line**

All of these considerations are taken into account by importers negotiating with FTC officials. Some companies would prefer to negotiate an exclusive with the FTC's Head Office which could cover several branches of the appropriate foreign trade corporation. Such an exclusive could include, for example, all baskets of a given design made of any of several materials by three specified branch factories. These items, interchangeable to the average consumer, should be handled as one to maximize market develop-

ment and the return on that investment. From the Chinese viewpoint as well, this sort of exclusive would be most profitable. An organized, large-scale distributorship network reaches small retailers and is capable of promoting market demand.

The closest arrangement to handling a whole product line on an exclusive basis is the distributorship granted Ideal Musical Instruments. Ideal was granted a series of exclusive contracts for violins covering a variety of brandnames from different branches. This aggregation of exclusives for violins provides Ideal with a range of violins from beginner to professional quality. However, these contracts do not cover all available violin models. In fact, violins are also sold to another New York importer on an exclusive basis.

This sort of aggregating exclusives is very important for importers who handle such lines of products as glassware or dinnerware.

### **For Foodstuffs—One Item from One Branch**

For most foodstuffs exclusives, the traditional one-item-from-one-branch approach has proved acceptable and preferable for American importers. The importer typically has imported the product for several years prior to concluding an exclusive distributorship agreement. He is familiar with the market and knows the product is acceptable to the American consumer. Promotion and distribution is based on a set grade and quality for the item.

For instance for a tea, since Brand M is a good-grade, tea acceptable to American consumers, the exclusive agent in the US is not interested in or capable of marketing Brand N which is perhaps more expensive, of different quality, and not generally accepted by American consumers.

Certainly, the exclusive agent is interested in promoting business and may be willing to experiment with marketing Brand N. However, he prefers to market this untested product on an *ad hoc* basis rather than committing himself to sell a large minimum under an exclusive agreement. This non-exclusive position allows the agent to test market-ability and acceptance without risking large losses.

For importers of foodstuffs there are other special considerations when contemplating exclusives from China. One is marketing unfamiliar items. The limited exposure of American consumers makes thorough market testing imperative prior to taking on the large inventory stipulated by the minimum order requirement of an exclusive contract. China recognizes this problem and in several cases oral agreements to "sell as much as possible" have granted a company the right to act as sole developer of the market without demanding minimum sales. The arrangement usually amounts to an option on an exclusive if the importer is successful in developing the market.

A second consideration is labeling and packaging. Not only must the packaging meet FDA and US Cus-



# EXCLUSIVE AGENTS IN NORTH AMERICA FOR PRC PRODUCTS\*

Company	Location	Product	FTC and Branch	1975	1976	1977
Armanino Farms	San Francisco, California	black tea and green tea in bags	Native Produce Shanghai Branch		x	—
(West Coast Company)	—	household furnishing item	Light Industry		x	x
Scarves by Vera	New York	scarves	Chinatex, Shanghai Silk Branch		x	x
(East Coast Firm)	—	household furnishing item	Light Industry		x	x
Boxer & Ashfield	New York	plaited bamboo articles	Native Produce Shanghai Branch	x	x	x
Men's Wear International	New York	men's printed flannel shirts	Chinatex	x	x	x
Havlik Enterprises	Cambridge, Ontario	machine tools	all branches of Machimpex	x	x	x
Quon-Quon	Los Angeles, California	fern baskets	Light Industry, Kwangsi Branch Peihai Branch			x
(West Coast Firm)	—	ceramic articles	Light Industry			x
China Native Products	Los Angeles, California	loose jasmine tea in tins	Native Produce Fukien Branch			x
(East Coast Firm)		shoes	Native Produce		x	x
Ideal Musical Instruments	New York	violins—Skylark Kapok Hsin Hai Parrot Blessing accordians	Light Industry Peking Branch Peking Peking Tientsin Canton, Dairen Tientsin Branch		x	x
E. Yuen	New York	straw baskets pineapple pattern, lead crystal	Light Industry Tientsin Dairen	x	x x	x x
Atlas Importing Co.	Boston	work boots slippers	Native Produce Peking Branch Shanghai Branch		x	—
Verde	Boston	leather training shoes (with plastic soles)	Native Produce Shanghai Branch		x	
Philstone Nail Corp.	Canton, Mass.	nails	Minmetals Peking Branch		x	—
Transocean Import	New York	hook rugs	Chinatuhsu			x x
(US firm)	—	super-woolen carpets (6 or 7 designs)	Chinatuhsu			x x

\* This list is not all-inclusive



toms regulations but it must also be appealing to the American consumer. Even then an item may be salable only in gourmet shops or through food brokerages as opposed to the large grocery chains like A&P, Safeway, or Giant.

This is because Chinese labeling does not include the Uniform Pricing Codes (U.P.C.) now required by large grocery chains. (These pricing codes are the linear configurations visible on most food packages, used for computerized, automatic check-out systems.) For at least one item, the exclusive distributor has submitted the requisite codes and labeling information to the proper FTC and branch. But China has not yet modified its packaging of foodstuffs bound for American markets. The massive marketing systems of chain grocers thus remain inaccessible to Chinese foodstuffs.

### Trademarks and Exclusives

There is also the question of trademark registration. Until recently, China has not actively provided for the protection of its brandnames or trademark designs in the US. In the last year several Chinese applications have been filed with the US Trademark office for registration of names and marks currently used by exclusive agents, who have no express provision for the use of the marks in their contracts (see *CBR* 4:1; p. 48 for listing).

As registered owners of the exclusive rights, China and its Hong Kong agents are free to license any US company for use of the trademarks regardless of existing contracts. Logically, the contract of exclusive distributorship implies the right of the agent to use the trademark. But at present exclusive distributors have no definite, enforceable agreement granting rights to use the marks.

Technically, China could be creating an infringement situation which they may or may not choose to enforce. Since there are no affirmative actions taken by the US Trademark office, any legal action would be taken by China against the infringing exclusive: This seems rather unlikely since China has selected the agents to market its brandname products.

The question is not without relevance, however, because there are presently two exclusive agents in the US using the same brandname for an identical class of goods. China should clarify its position and intent to protect its trademark rights by licensing its exclusive distributors.

## TYPES OF EXCLUSIVES

### Written Contracts

The most common practice has been for US importers to negotiate written contracts with a Chinese FTC for an effective period of from one to one-and-a-half years, renewable upon request of the US importer and subsequent approval of the FTC or branch

directly involved. This sort of exclusive distributorship contract is typified by the tea exclusive granted to Armanino Farms of San Francisco and the nail exclusive held by Philstone Nail of Canton, Massachusetts.

The goods covered are generally limited to a small number of itemized goods, as opposed to a whole product line. For example, the tea contract covers only tea bags for two grades of black tea and one of green tea, while the nail contract covers only wire nails.

Both agents expected to fulfill and exceed the minimum quantities set under the contracts. Philstone had exceeded its contract minimum as of mid-1976. Minimum quantity, however, is not a limit on the contract because the American importer is required to promote sales and reach the highest sales level possible.

These contracts generally cover the entire US. Therefore, the US importer who commits himself to an exclusive contract must have the capital and contacts to act both as advertising agent and as commercial distributor on a national level. This responsibility for promotion effectively limits exclusives to already well-established distributors.

### Oral Contracts

The second typical exclusive arrangement is based upon an oral contract such as the one E. Yuen has had for straw baskets produced by the Tientsin Branch of the Light Industrial Products Corporation. The contract was initiated in 1974 as an oral agreement for sole distribution in the US of baskets originally designed and produced in Tientsin. Consequently, the Tientsin branch manufactured E. Yuen's designs and sold solely through E. Yuen.

As in the case of written contracts, other US importers desiring to buy the straw bags manufactured in Tientsin were referred to E. Yuen. Under the agreement, market information and suggestions for improvements were submitted directly to the Tientsin branch regularly. Production was adjusted accordingly, and several shipments have been made to the US since 1974.

The contract being oral, there is no renewal provision or written promise to protect E. Yuen's designs. Under the exclusivity of the agreement, no bags of similar design were to be sold to other US importers or manufactured by other branches of LIGHTINDUSTRY. Competitive pricing has insured the capacity of the firm to distribute and sell larger shipments.

### Exclusive Design Contracts

The third common form of exclusive is exemplified by Vera's scarves designed exclusively for production in China. In this situation the product is manu-

factured in China according to an American design created by the American distributor/retailer. The manufacturer guarantees the exclusivity of design by promising not to sell to any other importer (See CBR 2:4; p. 7). In Vera's case, the merchandise included the Vera trademark explicitly protecting the design.

### LEGAL ASPECTS OF EXCLUSIVES

Every importer interested or involved in an exclusive arrangement with the PRC should know some of the more important relevant legal aspects. The potential direct legal restraints are primarily the American anti-trust laws, the Trade Act of 1974, and various US Customs laws and federal agency regulations.

Although anti-trust laws have never been applied to an East-West trade situation, their very existence may have served as a deterrent to certain contemplated practices. This deterrent effect is nebulous but nevertheless exists. Therefore, the purpose and methodology of the anti-trust laws should be understood by the importer who embarks on exclusive contract arrangements for Chinese goods.

The Sherman Anti-Trust Act 15 U.S.C. 1-7, prohibits in Section 1, "Every contract, combination, . . . or conspiracy, in restraint of trade or commerce. . . ." In addition, Section 2 declares it illegal for any person to monopolize, attempt to monopolize or conspire to monopolize any part of trade or commerce among the several states, or with foreign nations. Finally, Section 3 makes every contract, combination, or conspiracy in restraint of trade between the States and foreign nations illegal.

Generally, the objective of the anti-trust laws is to prevent one person or several people from controlling and manipulating a particular product market by price-fixing or any other practice which effectively precludes others from entering the market or remaining in the market. The laws are aimed at promoting competition for the benefit of the public.

The consumer is entitled to high quality goods at reasonable prices, generally available, and responding to supply and demand fluctuations in a free marketplace. This means that before there can be any anti-trust violation, a company must have the power to dominate the product market and substantially affect the price or flow of goods in that market.

In measuring monopolization of an industry or part of commerce, the court applies the Rule of Reason analysis to determine the effect of a particular practice on the relevant market. This approach requires an examination of the practice which is alleged to be monopolizing, the relevant market involved, the power of the alleged monopoly, and the impact on the public at large. With all the variables involved it quickly becomes clear that each situation and set

of circumstances is unique unto itself. The balancing of factors may create opposite results for cases involving essentially similar contracts.

It must be pointed out that this case-by-case, Rule of Reason approach is applied to all vertical arrangements where exclusive distributorships are involved. Not all vertical contracts are *per se* restraints on competition. Business dealings between manufacturers and distributors or retailers are not necessarily foreclosing competitors or business opportunities in the product markets where the manufacturer and retailer or distributor operate.

In other words, the US Supreme Court has deemed it proper to assume that businessmen at varying horizontal levels of the manufacturing-to-marketing structure do not necessarily compete with members at another level. Manufacturers do not compete with shopkeepers and distributors do not compete with retailers. To show anti-trust violations in vertical arrangements requires proving that competition has actually been restrained in a particular market by the existence of the arrangement.

### HOW ARE CHINESE EXCLUSIVES AFFECTED?

The same guidelines apply to Chinese imports as they do to all products entering interstate commerce via domestic production. Perusal of the volume of Chinese imports and markets in which they compete shows that there is no substantial effect on the US market or foreclosure of competition through exclusive distributorships.

For example, two exclusive items, tea and straw handbags or baskets, both compete with similar products imported from other sources. They are not considered peculiarly "Chinese" goods as a distinct sub-market for anti-trust purposes.

In the case of tea, the Chinese import must be marketed on an equal basis with tea and mate imported from India, Japan, and Mexico. Generally, the American consumer does not distinguish between teas except on a comparative pricing basis. There is no measurable, distinct market for loose tea as opposed to tea bags. Retailers normally consider tea as a single commodity regardless of packaging in different forms.

In the market category of imported tea, Chinese tea accounts for less than 2%, out of \$88 million (in 1975). Only four grades of black tea and one of green in tea bags are controlled by an exclusive contract. In addition to the Chinese tea in bags the 2% figure includes, primarily, various kinds of loose tea.

Given the tiny percentage of tea controlled by the exclusive contract and the small percentage of Chinese tea in the imported tea market, a US court following Supreme Court guidelines could not find this Chinese exclusive to be an unreasonable restraint on trade.

The proportionate share of total commerce controlled by one Chinese tea importer does not pre-empt effective competition in imported tea. American



tea importers can easily turn to Indian sources for cheaper tea. Therefore, the existence of an exclusive arrangement for Chinese tea bags has not foreclosed competition in the market. In fact, the exclusive tea buyer may be in a weaker competitive market position because Chinese tea is a little higher priced and less well-known to the American consumer. In light of all these considerations, it is highly unlikely that any anti-trust violation could be established against the existing exclusive distributorship.

The same situation presents itself for straw bags and other products.

From the overall trade statistics for volume of imports from China in 1975, it appears unlikely that any exclusive arrangement could have a substantial effect on any relevant domestic market. Even if Chinese goods were deemed to compete only with other foreign imports, the same conclusion appears valid. Total world imports into the US for 1975, amounted to approximately \$96 billion (FAS) as compared with total imports from China of only \$158 million for the same period. Of total China imports probably less than 20% are controlled by exclusive contract.

#### **ANTI-TRUST UNLIKELY IN FUTURE: EXCLUSIVES ARE "LEGAL MONOPOLIES"**

The trade statistics and business practices of American importers effectively preclude any anti-trust actions involving exclusive contracts either now or in the near future. With the small percentages of Chinese goods concerned there is no indication of foreclosing competition in a substantial share of the line of commerce affected.

On the contrary, American importers are extremely conscious of and sensitive to the change of prices and design of comparable items available to the American consumer. Within the distribution and marketing system there is no distinct market, separate from other imports or domestic products, for items of Chinese origin. The relevant market therefore encompasses a small percentage of total Chinese imports, the majority of which are not monopolies created by exclusives.

The American legal system in fact encourages the type of monopoly created under an exclusive arrangement. In *Schwing Motor Co. v. Hudson Sales Corp.*, 138 F. Supp. 899 (D.Md. 1956), aff'd per curiam 239 F. 2d 176 (Fourth Cir. 1956), cert. denied 355 U.S. 823, 78 S. Ct. 30, 2 L.Ed. 38 (1957), a car dealership was terminated in favor of granting an exclusive arrangement to another dealer. Although the exclusive resulted in fewer Hudson cars being sold, the contract was upheld as legal. The complaint was dismissed for failure to show unreasonable restraint, monopoly or injury to the public in violation of anti-trust laws. The court specifically endorsed the arrangement recognizing that "A manufacturer may prefer to deal with one person rather than another, and may

grant exclusive contracts in a particular territory."

The court went on to clarify the limits of exclusive distributorships, as follows: "An exclusive agency or dealership necessarily involves a limited monopoly to sell the product of the manufacturer in the area covered by the exclusive agreement. Such limited monopolies are not invalid . . . unless they are used to violate the antitrust laws . . . Nor may they be used to establish market dominance and drive out the products of competitors . . . But the mere fact that such an agreement necessarily gives the dealer a monopoly in handling the product of the particular manufacturer in a given area, and thereby enables the dealer to dictate the price at which the products of that manufacturer shall be sold in that area, subject to competition with the products of other manufacturers, does not condemn such agreement; otherwise all exclusive agency agreements would be illegal *per se*."

Under the facts of the *Schwing* case, and consistent with general practice in the US, exclusive distributorships are legal monopolies of products. So long as the product market is not dominated by the parties to the exclusive, the manufacturer may condition his sale to the exclusive distributor in any way he pleases.

#### **Exclusives Subject to Chinese Law**

Besides the above, American contract law and choice of law rules are not generally applicable to Chinese contracts whether of standard form or exclusive. Since the exclusive contracts are negotiated, signed, and performed in China, they are subject to Chinese law and principles of choice of law rules. This means that Chinese custom of the trade and course of dealing will be read into the contract for any information on inspection, arbitration or shipment not specified. The primary source of applicable law, however, remains the contract itself: The "law merchant" of Sino-US trade is another subject altogether.

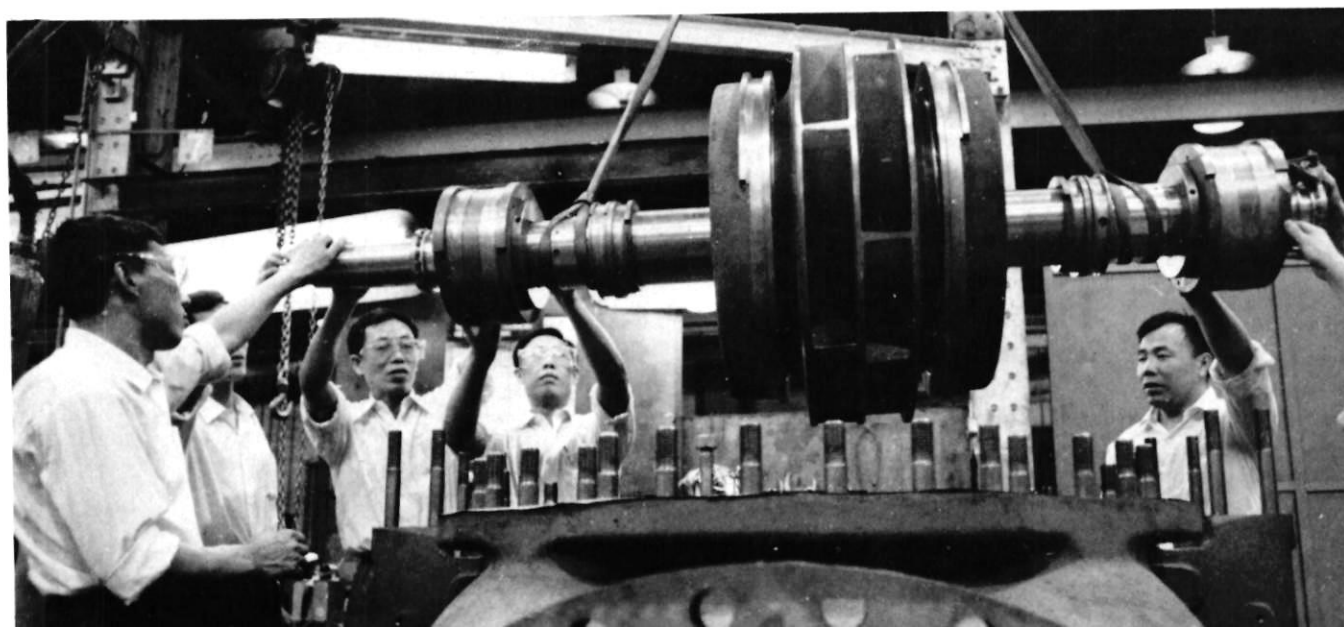
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So far, the American importers working under exclusive arrangements have met overall success. None of the importers interviewed indicated an intent to discontinue their exclusive arrangements when the contract expires. Those exclusive importers operating on oral contracts have not been disadvantaged because the arrangement is oral. Moreover, the importers' investment in distributing exclusively for China, providing market information, and improving designs for increased volume of trade has created profitable trade for the US and China. China's desire to find exclusive agents and US importers' willingness to act in that capacity are the best proof of US-China trade success despite direct and indirect legal restraints.

The sequel to this article describes typical exclusive agreements for Chinese products, pricing and commissions in these exclusives, and other conditions, including texts of contracts.

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**CHINESE TECHNICIANS ON THE  
JOB IN THE US AT GOULDS PUMPS,  
SENECA FALLS, NEW YORK**





# CHINESE TECHNICIANS IN THE UNITED STATES

Stephanie R. Green

*American firms in the process of selling products to China will be interested to know that some four hundred Chinese technical personnel have trained at US companies since 1973 in connection with sales of US plant and technology to the PRC. The following article, the last in a series, relates what happens when Chinese technicians come to train at US facilities. Companies have found their Chinese visitors to be cooperative, diligent, and competent. One firm found the Chinese group to be "the best class we ever had." But it appears that, in at least one sense, the Chinese may be more interested in buying the training than the product. They send more people than Western companies do, including sophisticated observers, focus on the design of the products rather than use, send trainees who do not later turn up at training sites in China, and, as in the Japanese experience (See CBR 4:3), they sometimes request access to additional technology not in the contract. Thus it is apparent that China's purchases from abroad represent a bona fide foreign education program for the PRC's technicians. This program, involving several thousand Chinese technical personnel, has similarities to the Singapore scheme launched in January, 1971.*

Chinese technicians have been resident in the US almost continuously since early 1973 training at the facilities of one US firm or another in connection with sales of equipment to the PRC: Almost 400 from the China National Technical Import Corporation, the China National Machinery Import and Export Corporation, the China National Chemical Import and Export Corporation, and other foreign trade corporations, as well as end-user companies affiliated with these state corporations, have trained or are scheduled to train on site at nearly twenty companies throughout the US, including Stewart & Stevenson, Geospace, Dowell, Pullman Kellogg, Caterpillar, Gleason, United Technologies, and Hunter Engineering.

The trainees have attended classes on installation, operation, and maintenance of purchased equipment and have often had the opportunity to inspect this equipment at the facility where it was manufactured. They have stayed for anywhere from several weeks to over a year in places as diverse as Seattle, Peoria, Houston, and Trenton, NJ, and have seen much of the US, from the New England countryside to Disneyland.

One Chinese interpreter who spent, all told, one year and nine months in the US, mostly at a Pullman Kellogg subcontractor, recently saw "This is America," the movie in the round at Disneyland which shows breathtaking scenery from coast to coast. Afterward he enthusiastically told an escort, "The movie was my favorite activity at Disneyland because I have seen almost all those places, and it was fun having the opportunity to see them again."

For this article, *CBR* talked to most of the companies that have made sales to the PRC since 1971 to obtain an overview of their experiences training their Chinese trade partners here in the United States. Not all of them have actually included technician clauses in their contracts; some simply offer free technical assistance as an after-sale right.

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*Where a typical Western company might send four technicians to America, the Chinese send sixteen. They also often negotiate for longer training sessions than are generally given to other buyers, partly due to translation difficulties.*

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### **Chinese Eager to Come**

In a previous article in this series (*CBR* 4:1), it was pointed out that US firms have had a substantially more difficult time negotiating to send American technical instructors to China than to host Chinese trainees in this country, perhaps because of the Chinese reluctance to permit Americans to see the precise state of their technical development.

The Chinese have, however, proved eager to send here what has probably been a corps of bona fide technical trainees interspersed with more sophisticated, high-level observers who help determine future Chinese purchasing decisions. Although the Chinese have never substantiated that this is the case, it has been inferred by several companies because the trainees who have come to the United States are generally not the same as those the technical instructors later see in China.

A WABCO representative said that only three out of the 35 that were trained by him in the US turned up at his Chinese training site. He asked why the others were not there and was told that they were "on other assignments." He replied, "You spent a lot of money sending them to the US, and now you are wasting it." Over the next several days, six more—but never all—of the group that had come to America straggled in to class. A Caterpillar interviewee observed that only two of the group of eight

the company trained in the US were present during the PRC training sessions, and a Dowell spokesman noted that none of his company's group in China was the same.

The only drawbacks to the sending of large numbers of Chinese to the US appear to be the amount of exposure they inevitably have to a society and lifestyle radically different from their own and the cost of supporting large groups in a very expensive country. Thus far, the advantages have seemed to outweigh the disadvantages in the eyes of China's industrial planners.

### **Negotiation for Training Arrangements**

In line with PRC eagerness to dispatch its own technicians to US shores, American company negotiators have usually found the Chinese anxious to send large numbers for training, often more than is necessary or desired by the host company. One company spokesman observed that where a typical Western company might send four technicians, the Chinese send sixteen.

The Chinese have also often negotiated for longer training sessions than are generally given for other buyers, partly due to the difficulties of translation of the material. One spokesman commented that the Chinese will send technicians for two or three times as long as a Western company. For example, the United Technologies program—normally six weeks for English speakers and nine with translation—had to be extended to eleven weeks. And in at least one case, a training program had to be revamped and lengthened at the last minute because the people sent were higher-level management types, not experienced engineers.

Sometimes "more" is not the policy. There have been cases where fewer technicians than were actually negotiated for arrived for training. At least one firm which charges extra for technical assistance found that the Chinese trimmed the number considerably.

### **Contact with the PRC Liaison Office**

Before going to training sites around the country, many of the Chinese technical groups have checked in at the PRC Liaison Office in Washington, DC, to adjust to their new environment and confer with PRCLO staff from China's Ministry of Foreign Trade. They appear to remain in close touch with the Liaison Office for the duration of their stay, and PRCLO trade officials often visit them, taking the opportunity to tour American manufacturing facilities and meet company representatives.

### **LIVING AND WORKING CONDITIONS**

Some of the American host companies were a little apprehensive before the arrival of their Chinese guests. An executive at one of them commented that



the Chinese upon arrival seemed to be braced for antagonistic attitudes among the Americans, but, when they did not find them, were glad to relax.

No spouses or children made the trip to the US, although at least six American companies have sent family members to China. The Chinese trainees always stick together in tightly knit groups, refusing to be split up individually to go anywhere, as one firm found when it offered to train one individual at a different plant from the others.

**Accommodations.** Across the board, Chinese trainees prefer to be housed in apartments or in apartment-style hotels, rather than regular hotels. The major reason is to do their own cooking; very few have demonstrated affinity for American food, which they regard as bland and heavy.

Often, the Chinese have not made clear to their hosts in advance their desire for apartment accommodations. In some cases, they were switched from regular hotels after their arrival, such as at Caterpillar and Delaval. In the case of the two groups trained by WABCO, the first was housed in a Hilton hotel, but the second group was put up in apartments.

Bucyrus-Erie arranged their rooms in a regular hotel, but they ate every dinner in a nearby Chinese restaurant. At Boeing, however, the group apparently did not want to do its own cooking; they were housed at Seattle's Olympic Hotel, which hired cooks originally from Szechwan and Harbin for the duration of their visit. In Houston, the Lamar Towers condominium, which rents out furnished apartments, was the winner as housing for Chinese groups: Both Kellogg and Stewart & Stevenson arranged for accommodations there.

The Chinese cover all expenses while in the US, as Americans do while in China. Interestingly enough,

there have been cases where the Chinese paid less per night here than Americans did in Peking.

**Food.** "They came with their pots and pans," observed one company spokesman. Generally, the Chinese groups have eaten American-style lunches in the cafeterias at their host company's plant but have cooked their own national dishes at dinnertime. They generally do their own shopping in the local grocery or supermarket.

A Caterpillar representative recalled that the only time he saw the Chinese group break from their tight ranks in a public place was the first time they entered an American supermarket. They scattered down different aisles to stare in wonder at the variety of foods offered. Each collected a huge amount of typical American goods, including peanut butter, ketchup, and jam. "The bill came to more than \$40 that first time," said their amused escort. The company also took them to an Asian food store.

**Recreation.** Adhering to Teng Hsiao-ping's 1975 admonition to reduce or eliminate the time spent sightseeing or in recreational activity during technical visits, Chinese groups have often been reluctant to stop their study. After a period of time, however, they have relaxed enough to enjoy a variety of activities, including visits to private homes, beaches, fishing, museums, zoos, NASA, the Houston Astrodome, Mystic Seaport, and Niagara Falls. They have seen hockey and baseball games and played miniature golf, croquet, and—of course—Ping-Pong.

The group that visited Stewart & Stevenson in Houston was taken to the beach one somewhat chilly early spring day. "We provided bathing suits, jogging suits, and tennis shoes," remembered Carsey Manning, General Sales Manager, who had overall responsibility for the China business. "Some of the people were a little reluctant to take off their jackets, and only one got in the water." He also commented that "we wanted to take them to see an American movie, but we couldn't find one without sex or violence in it."

Generally, the groups proved agreeable to whatever activities their hosts suggested for them, but sometimes they did refuse. For example, Caterpillar found that proposed outings to a local high school and a country music concert were politely but firmly rejected. "Perhaps they were afraid of student violence at the school and bourgeois decadence at the concert" was the analysis.

The trainees have responded to American hospitality by inviting their instructors to their own accommodations for Chinese dinners, which have been warm and informal.

**Business Travel.** During the course of their stays in the US, the groups have either asked for outings to see various facets of American industry or their hosts have volunteered to arrange such trips, usually to mines and farms, or sometimes to other companies. For example, the Bucyrus-Erie group was taken to the iron

#### TRAINING FOR TRAINING

For American firms with contracts to train Chinese technicians in the US or to send American technicians to China, The Asia Group offers unique, intensive in-house training programs to acquaint executives and technicians with the "do's" and "don't's" of working with Chinese on a day-to-day basis. Programs specialize in current Chinese politics, society, regional characteristics, and language; and utilize extensive written and videotaped materials targeted on the product area involved and the character of the firm. Programs are conducted at clients' facilities to permit on-the-job continuity. The Asia Group makes recommendations to each client as to how he can best create a continued mutually beneficial relationship. It advises and assists throughout the client's contact with China. For details, contact: The Asia Group, 2224 N. University Avenue, Peoria, Illinois 61604; telephone: (309) 685-0762.

# CHINESE TECHNICAL PERSONNEL IN THE UNITED STATES

Company	Product	Number	Date	Location
Boeing	707 aircraft, spare parts, ground equipment	70 (5 groups)	February, 1973 Early April, 1973 Late April, 1973 Late May, 1973 June, 1973	Seattle
Bucyrus-Erie	Blast hole drills, power shovels	10	October, 1974 (1 month)	Milwaukee
Caterpillar	Pipelayers	8	March, 1976 (1 month)	Peoria, IL
Chromalloy	Water treatment equipment	6	Late 1975	Los Angeles
Comtech	Electronic equipment for satellite communications earth stations	11	July, 1975	
Dowell	Petroleum equipment used in high-pressure hydraulic fracturing	9	January 9, 1977- February 16, 1977	Tulsa, OK Houston area Peoria, IL
Geospace	Seismic surveying equipment	20	January-May, 1975	Houston
Gleason	Bevel and hypoid gear machines	18	June-August, 1975	Rochester, NY
Hunter Engineering	Aluminum processing equipment	11	March, 1978 (30 days)	Riverside, CA
Vendors: Hewlett-Packard	Computer	11	March, 1978	Palo Alto, CA
Reliance Electric	Electric motors		March, 1978	OH
Pullman Kellogg	Ammonia fertilizer plant	At least 50 10	November, 1973- January, 1974	Houston Hackensack, NJ Trenton, NJ
		12	May-September, 1975 July-September, 1975	Houston, PA, OH MA
		25 More small groups	1974-1975	Houston, OK Houston
Vendors: Delaval	Gas turbines	About 30	October, 1974- October, 1976 (varying periods of time)	Trenton, NJ
Babcock & Wilcox Goulds Pumps			May 22-23, July 30- August 2, 1975	Seneca Falls, NY
RCA	Satellite communications earth stations	26 7 7 8	July, 1973 July, 1975 April, 1976 December, 1972 December, 1973	NJ
Stewart & Stevenson	Oil well servicing equipment	7	February 15, 1977- March 15, 1977	Houston
United Technologies	Training on jet engines for Boeing aircraft	23	April-June, 1973 (11 weeks)	Hartford, CT
	Inspection of jet engines	4	April-December, 1973	Hartford, CT
WABCO	Mining trucks of 35-, 75-, and 120-ton size	6 8	August 1-September 5, 1975 September 8-26, 1975	Peoria, IL Perria, IL; AZ
Vendor: Cummins	14 engines for WABCO mining trucks	6 8	August-September, 1975 (10 days) September-October, 1975 (2 weeks)	Columbus, IN
Other companies		106	1976-1978	
		Total: At least 393		
Note: Totals for vendors are not additional.				



ore mining areas of Minnesota and to the Kentucky coal fields. Kellogg trainees went to see the Fluor Corporation and Dowell trainees to see Caterpillar. WABCO and Caterpillar guests saw hogs, corn, soybeans, and cattle. The Caterpillar group also saw the Red Ember coal mine. A petroleum equipment company escorted its group to see offshore facilities in the Gulf of Mexico.

In one case, a Chinese group was taken to see a sophisticated hog farm in the Midwest. When the American company representatives who had trained them here got to China, they saw what appeared to be a replica. "The Chinese may have copied what they saw here in the US," commented the engineer, "since it looked brand new."

**Orientation.** The same companies that sought orientation to sensitize their technical representatives in China (See *CBR* 4:1) have also arranged orientation programs for home staffs to educate them about the great differences between politics and lifestyles in the US and those in China. Pullman Kellogg used the State Department's Foreign Service Institute, while Caterpillar, WABCO and other companies have worked with a twosome called the Asia Group, of Peoria, Illinois. The National Council has also provided orientation.

### TECHNICAL INTERACTION

**Demeanor.** The Chinese win high kudos for their cooperativeness, diligence, and competence. "They were extremely nice people," commented Stewart & Stevenson personnel. "We haven't ever had any more pleasant and cooperative visitors than they were." Another company said that the Chinese made up "the best class we ever had."

The Chinese have been very thorough students. A WABCO spokesman commented that they ask questions exhaustively on each topic. "If you say something, you must be prepared to back it up. They take notes on everything." But despite American appreciation of Chinese diligence, there have been areas where expectations of the Americans and the Chinese have diverged, as is described below.

**Who Are They? Mysterious Visitors.** "We knew our group was from the Szechwan Petroleum Company," said Gordon Scott, formerly Assistant Regional Manager of International Services for Dowell in Houston and now in Paris, "but we didn't know anything else. We asked several times for further information, telling them that we could help them more if we know better what they do. But all we got was vague answers."

Stewart & Stevenson commented that because their contract was signed with TECHIMPORT, they assumed the group was from that corporation. "We only found out at the end of the training that they were end-users, and we still don't know the name of the organization." From Caterpillar came the comment

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that "we never knew on what basis the members of the group were chosen to come." Several companies observed that some members of their groups must have been from research institutes, although the Chinese never confirmed this hypothesis.

**Self-reliance and Pride.** As is true for Chinese trainees in American classes in China (See *CBR* 4:1), the Chinese trainees in the US just want to be well enough prepared technically that, with the help of a very small number of Americans, they can master equipment themselves. Their pride sometimes has led to frustrations in the classroom when they have been unwilling to follow instructors' suggestions on taking equipment apart and putting it back together again.

**Content of Training.** In addition to the planned course of training, the Chinese have, in several cases, asked to operate a unit or an entire plant. Companies say that this is either very difficult or impossible to comply with because of company rules, safety regulations, schedules, and the like. For example, the Chinese asked that arrangements be made for them to take over a plant—both starting it up and shutting it down. A company representative told them this would upset the whole plant schedule and could not be arranged. Part of his rebuttal to them was, "Would

Chinese technicians visit Texan rice farm while training at Pullman Kellogg.





you let us do this at your plant?" They answered, "No."

As described in the article on US technical personnel in China (See *CBR* 4:1), the Chinese in the US showed great interest in the basic design of an item in order to learn how to reproduce it themselves. In several cases, they could not seem to understand that designs are not frozen and that changes are sometimes made during the construction of a piece of equipment as designers discover new improvements.

**Access to Additional Technology.** Some companies have pointed out that the Chinese have kept asking for technical seminars or for information on subjects having nothing to do with the contract signed and which is often a trade secret. They have also succeeded in getting agreements from at least one service company for inspection rights—a privilege not usually granted by the firm. The same firm arranged during their visit to take them to oil well sites—also not a function of a service company. "This is a move to get access to technology which they haven't purchased," commented a company representative.

Additionally, the Chinese made very clear to that company that they intended to use the additional information gained to do things themselves and had no intention of calling upon US companies to provide services. The company, which had politely arranged these extra seminars above and beyond the requirements of the contract, was understandably piqued by what it felt was a selfish handling of the matter.

Senior executives of Pullman Kellogg with Chinese technical group in Houston.



**Interpreters.** As in China, the quality of interpreters has been erratic, causing problems in understanding and leading to delay in the lengths of training sessions. In some large companies, Chinese-speaking employees have helped out, an action that the Chinese have accepted gracefully. But some firms refuse to take on the liability attached if their own employees are responsible for how well the Chinese absorb material.

Generally, two or three Chinese interpreters are sent with a group of about ten or twelve trainees. One of them usually is excellent, and the others are adequate. Some companies have had no problem at all or have been able to keep their programs on schedule despite minor interpreter problems.

**PRC Bureaucratic Response.** In some cases, the Chinese have not been able to respond quickly enough when Americans have informed them about the date they must be here to inspect their equipment during the manufacturing process. For example, although several companies have agreed to a contract clause for a group of Chinese to come to this country, the Chinese have not been able to organize a visit before the equipment has been crated up for delivery.

## INFORMAL INTERACTION

**Reactions to America.** All the groups have tended to be impressed with the openness and friendliness of Americans. They have been generally aloof at the start, but have relaxed as they have responded to the warmth of their hosts. Many said that their impression of the US changed greatly after their arrival. A number of them had come fearful of violence but seemed to feel that there was less than they had been led to believe.

They were also impressed with the American work ethic and by the fact that Americans will do many different types of work to get a job done. For example, when a higher-status instructor at one company helped out in a particular situation by driving a company bus, they were amazed. A firm spokesman commented, "They saw we had no bourgeois tendencies!"

Almost all groups adopted Western dress during their stay in the US, with the obvious intention of deflecting curiosity. They were at ease only with their hosts and sought to avoid other encounters with Americans.

**Political Discussions.** With the fall of the "gang of four," Chinese technicians visiting the US changed their political demeanor from complete reserve to relative openness. Trainees at some companies, who arrived after the arrest, were "very willing to talk freely," said a company representative. "They talked about the impact on trade and the positive aid it would be to domestic development." Other trainees told Americans that before the rout of the "gang," foreign trade personnel were considered traitors because they negotiated with foreigners.

Discussions were not limited to Chinese politics.



## U.S. TECHNICIANS IN CHINA—UPDATE \*

Company	Product	Number	Date	Location
Caterpillar Far East Ltd.	Diesel and gas engines	2	August, 1977 (3 weeks)	Peking
Dowell	Petroleum equipment used in high-pressure hydraulic fracturing	1	April 26, 1977- May 20, 1977	Peking, Takang, Chungking
Dunegan-Endevco	Advanced acoustic emission instrumentation	1 4	Early October, 1977 Late October, 1977 (1 week)	Peking Peking
GE Westinghouse Caterpillar Ingersoll-Rand Clark Armco	Serviced Robin Loh Oil drilling rig for which all had supplied equipment	14	September, 1977	Nanning, Kwangsi Chuang
International Harvester	Oil field transport equipment	5-7?	January-March, 1978?	Unknown
Reed Tool	Drill bits	1	1975 (1 month)	Peking
Rolligon	Rough terrain vehicles for oil field use	1	April, 1978 (1 month)	Unknown
Smith International	Drilling bits	6	May, 1977 (1 month for part; 2 weeks for part)	Peking
Stewart & Stevenson	Oil well servicing equipment	4	March-April, 1977; June-September, 1977	Chungking, Peking
Texas Instruments	Seismic monitoring equipment	1	July, 1977 (3 weeks)	Peking, Nanking
		2	August, 1977 (4 weeks)	
		2	September-October, 1977	
Other Companies		92	1977-1979	
		<b>Total: At least 138</b>		

\* This updates the list published in CBR 4:1 pp. 28-29.

The groups asked many questions about America. In a discussion about President Carter, one group expressed the opinion that it was good that a farmer could be president.

### CASE EXAMPLES

#### United Technologies—Hands-On Training

One of the very first Chinese technical groups to come to the US spent eleven weeks in Hartford, Connecticut, in the spring of 1973 studying the mechanics of the Pratt & Whitney aircraft engines bought for the Boeing 707's. It was smaller than the number that had been negotiated for—only half the 40 the Chinese originally wanted to send.

The Chinese agreed to a standard training curriculum for the Pratt & Whitney engines, with very simple terms in the contract for caring for the Chinese. Essentially, MACHIMPEX was to provide student names two months prior to their arrival, so that arrangements for their accommodations could be made, and provide the necessary interpreters. United Technologies International (UTI) was to arrange "suitable lodgement" to be paid for by the stu-

dents, free transportation to and from lodgement, plus adequate working space and facilities.

The contract was far more detailed on training hours, since this section was based on standard forms. Only one United Technologies field representative was sent to China, residing in the Peking Hotel from September, 1973, until September, 1974, and overseeing inspection and maintenance of the arriving shipments.

United Technologies executives believe that the company had no difficulty in negotiating contract terms, other than slowdowns caused by interpreter problems, because their product is unique and very well-known.

The Chinese stayed at the Hilton Hotel in Hartford, where arrangements were made for a Chinese chef to cook their meals and for medical facilities should they need them. They were extremely security-conscious and requested a guard and extra locks. But as time went on, commented Edward Hiscox, Vice President, UTI, "they became less and less worried."

Since this was one of the first groups to stay in the US, United Technologies was naturally concerned about how they would be accepted at the company



and by the local community. The decision was made that the Chinese would be invited to homes of UTI employees, but to no other homes in the area. The group asked for a low profile in the press and was written up only after it had departed from the country.

As mentioned, the training curriculum used for the Chinese was identical to that for other buyers. The only problems arose over translation. The curriculum for English speakers takes six weeks to complete, for non-English speakers generally nine weeks; the Chinese, however, had a longer program of eleven weeks. The course, as normally structured, required four interpreters, but the Chinese brought only three, so the staff had to carry out a last-minute repackaging to account for the shortage. "It was not too much trouble," commented William Aberle, Manager, Product Support, Pratt & Whitney Aircraft.

Because the Chinese were new customers in the jet engine field, many of the technical terms had not yet been translated in a standard manner in any one place, but no insurmountable difficulties arose from this situation; the company used a Chinese company staffer to establish a standard for terms such as "nozzle guide," so that they would always be translated the same. "This took a week or so to square away," remembers one executive. This company interpreter was involved with the group for its first two weeks.

"We made an effort to keep from introducing new faces or changes in the program. One instructor would consistently be a spokesman on the same topic," recalled Aberle. The general feeling was that the members of the group had a high level of expertise and were not difficult to train in classwork. "They were very aware and picked up any inconsistencies that existed. They were also very thorough in asking questions and insisting on complete answers."

The group had hands-on training with the engines. "They were very excited that they were working with a live engine, not a dummy," commented Hiscox. "They wanted to get it back to China as quickly as

possible so that they could try it out."

"We developed a real rapport with the group and still have contact. They took to everything American—but they still kept smoking Chinese cigarettes."

### **Stewart & Stevenson—Fitting Right In**

The Houston-based Stewart & Stevenson Services, Inc., is one of the most recent hosts of Chinese technicians. Seven people from a petroleum equipment end-user group visited the company from February 1 to March 15 of this year.

The contract negotiated prior to their arrival stipulated that the Chinese would send a technical team of 5-7 people to the US, but the numbers of Americans who would give technical assistance in China were left open. The shipment of oil well servicing equipment would be made in three separate lots; the Chinese agreed to come here to inspect each lot but later amended this, inspecting only the last lot. "They did not seem to be desirous of hosting too many Americans," noted General Sales Manager Carsey Manning, "but neither did they seem particularly eager to send their own people to our facilities."

Stewart & Stevenson chose the Lamar Towers furnished condominium apartments in which to house the group, because it was liked by the technical personnel who trained earlier at Pullman Kellogg. The Chinese had expressly requested this type of accommodation in advance. They were charged \$800 per month, for which the company made a down payment and was later reimbursed by the group.

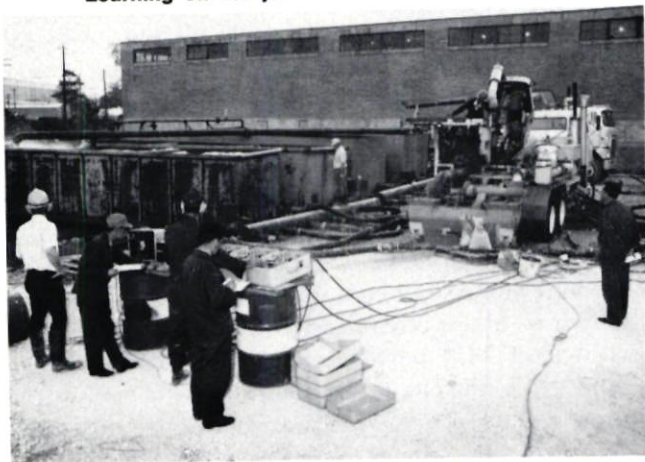
"They just fit right in," commented Manning. Only the interpreter had been to this country previously. For the rest of the group, the US visit marked the first time its members had traveled anywhere outside of China. "We had great camaraderie and talked about many personal things."

During their stay, company staff members took the group to see all parts of Houston and the surrounding area, including NASA, the Astrodome, and the beach. Manning personally invited them to his home for dinner twice, and they reciprocated with a dinner for members of the instructors group. Everywhere they went, they brought small gifts for their American hosts.

### **Conclusion**

Since January about 60 additional technical instructors from the US have been to China, and about 70 Chinese trainees have been here. Companies interviewed during 1977 often indicated that they have been able to draw on the experiences of earlier exchanges in order to prepare better to handle their own technical interaction with the PRC. Their statements reveal that both Chinese and Americans appear to be communicating on a smoother and more relaxed level. There is little reason to doubt that this improvement will continue. 完

**Learning on the job at Stewart & Stevenson.**





*The Fall 1977 Canton Fair was marked with unprecedented cordiality for US buyers and new Chinese willingness to consider US regulations in preparing market strategy. More than 700 Americans representing 350 firms came to the fair, a record number; the business they did was, overall, about the same as the Spring Fair. This report is from the National Council's Hong Kong representative, John Kamm.*

The 42nd Chinese Export Commodities Fair (CECF)—the tenth session attended by American traders—took place under brilliant autumn skies in the ancient trading center of Canton. The cool, dry climate was enhanced by an atmosphere of cordiality and openness unprecedented in recent years. Unfettered by ideological strictures and armed with an array of new-found commercial techniques, the state corporations adopted a “down-to-business” attitude which has become a hallmark of the state’s outward-looking economic policies.

More than 700 Americans representing some 350 companies attended the fair. Record numbers of other nationals showed up, pushing total attendance to nearly 30,000, of which 17,000 were businessmen. An ill-advised decision to close the front half of the Tung Fang’s old wing compounded an already-severe room shortage. Doubling and tripling up were frequent occurrences, and rarely-used facilities—including Army barracks—were brought into use during the first hectic week.

China’s new foreign and domestic policies manifested themselves in surprising ways. Traders in transit at the Shumchun crossing heard strains of Mozart and Beethoven over the station’s loudspeaker system. Cultural performances highlighted native customs and incorporated vivid references to mythological gods and goddesses. The Light Industrial Products Corporation offered Christmas decorations for the first time since the Cultural Revolution. The hotels were noticeably cleaner, and service in the restaurant was much improved, though fixed costs for banquets rose again.

#### **Volume—Record Business**

On November 15, the last day of the fair, authorities announced record import and export totals for business concluded during the month-long event. Much of the increase in China’s exports arose from bolstered supplies to Hong Kong and Macau, a move which received strong official support from the Minister of Foreign Trade, Li Chiang, in an important article published in October’s *Red Flag*. European totals were up considerably from all previous fairs, due, in large measure, to China’s massive purchases of steel. Only Japan reported a decline in business concluded by its nationals: \$100 million in purchases (down from \$100–120 million at the spring fair) and \$120 million in sales (down from \$130–140 million at the previous session).

Total volume for the US was roughly the same as the record levels reached at the spring CECF: \$67 million of which \$49.0 million was purchases and \$18.0 million represented sales. The considerably improved level of Chinese sales to US buyers was a direct result of the reemergence of textiles as the principal export commodity, whereas the decline in the US sales total is understandable in light of the absence of polyester fiber and pulp deals. Reflecting

## **CANTON 42**

# **DOWN TO BUSINESS, CORDIALLY**

**John T. Kamm**

the continued importance of the fair in Sino-US trade, roughly 45 percent of China’s sales to the US in 1977 was concluded in Canton.

#### **CEROILFOOD—Soy in King-Size Containers**

As with most other corporations, the Cereals, Oils and Foodstuffs Corporation (CEROILFOOD) issued a record number of invitations to US companies. Unfortunately, the value of export contracts concluded at the fair—an estimated \$2.1 million—was only slightly above the previous spring fair’s total, due largely to the corporation’s inability to sell shrimp.

Frozen shrimp, once CEROILFOOD’S principal export to the US, has now all but disappeared from Sino-US trade. Each of the three major shrimp importers who attended the fair complained bitterly over Chinese CIF quotations, which typically topped US ex-factory prices by margins of 50–60¢ per lb. The Chinese, in turn, remarked that Japanese buyers found their prices “very fair” and had contracted for substantial quantities. In fact, informed sources confirmed Japanese orders for 2,000 tons but revealed that the purchases were made at a loss. “This is the Oriental way of doing business,” a Japanese official remarked. “The shrimp buyers will suffer serious losses in order to keep their allocations for the future.”

Bigger sales of superior soy and soy sauce, principally to Chinese restaurants in New York and San Francisco, together with sizable deals in vermicelli were credited by one US corporation official as the means whereby last spring’s volume was surpassed. Soy is now offered in king-size plastic containers, an important advance.

More than \$500,000 worth of canned foodstuffs was sold to US buyers at the fair. Major items included water chestnuts, lotus roots and mandarin oranges. The National Council continued its discussions with representatives of the corporation on low-acid canned foodstuffs registration, and progress was made on a number of points. Significantly, members of the Canned Foods Department stated that trade in low-acid foods had shown a marked improvement since registration of the first three branches was completed and assured the Council that further registration would be undertaken “as trade develops.”

Two alcoholic beverage exclusives were granted to a

single American importer, but spokesmen denied that an exclusive had been issued for mandarin oranges. "We hold that granting exclusives is a common practice which is mutually beneficial in that it leads to market stability," stated a leading cadre of the trade delegation. "While useful, we feel that a sound understanding of regulations is more important for market development than granting exclusives."

### **SINOCHEM—A Shift to Specialized Products**

In a significant switch of tactics, the Chemicals Corporation (SINOCHEM) negotiated and concluded purchase contracts during the first and second weeks of the fair. Activity continued unabated till closing day, and at least one US firm stayed on till November 18 to sign additional contracts. US companies sold approximately \$12.0 million of intermediates, plastics, dyestuffs, specialized chemicals for the petrochemical industry, and medical equipment. This amount was considerably less than expectations raised by frenetic activity in the early days, and traders expressed disappointment with SINOCHEM negotiating tactics and "unrealistic pricing." Every attempt was made to force competitors to cut prices, and European, American and Japanese traders pointed accusing fingers amid acrimonious charges of "dumping" and other "unethical practices."

On the other hand, some US firms were pleased with the result. A larger percentage of US sales is being sourced from US installations, and SINOCHEM showed greater willingness to arrange for shipments from US ports. A greater variety of chemicals was sold, and some traders noted a shift in Chinese priorities from intermediates to more specialized products in which the US is competitive.

In a surprising development, a large portion of SINOCHEM's imports was negotiated by branch corporations. One source broke down purchases as follows: head office—50 percent, Shanghai—25 percent, Kwangtung—10 percent and Tientsin/Dairen—15 percent. A corporation spokesman explained that all imports "are handled under the leadership of the head office and concluded on head office standard contracts. However, greater responsibility has been given to branches at the fair due to a lack of manpower at the head office."

Medical equipment looks to be a promising area for future sales. Several small deals were concluded with US suppliers, and a number of detailed technical discussions took place.

SINOCHEM reached last spring's US-bound export total of \$2.0 million, sales of barium chloride, barium carbonate, and potassium perchlorate were made, as well as small transactions in medical supplies. Some interest was expressed in Chinese tires manufactured from 100 percent rubber. A corporation official revealed that some pharmaceuticals were now tested according to USP standards, but most new products are tested according to BP73 specifications.

Despite a lull in mini-fair activity, SINOCHEM has not given up the techniques and reliable sources expect a pharmaceuticals and medical instruments fair sometime in 1978.

### **INDUSTRY—Wage Increases Push Up Prices**

Both the General Merchandise Section and the Arts and Crafts Section of the Light Industrial Products Corporation (INDUSTRY) improved on sales figures registered at

the spring fair; a corporation spokesman placed general merchandise sales to US customers at approximately \$2.0 million, with arts and crafts contracts weighing in at \$6.0 million.

Popular products offered by General Merchandise included footwear, sporting articles and toys. Despite high prices, US buyers were impressed by the quality of leather shoes. High demand from Hong Kong distributors—who had just placed large orders at a Peking mini-fair—and European importers kept US allocations at spring fair levels. Several firms expressed interest in such items as badminton racquets and Ping-Pong balls; at least one US importer actively sought exclusives and private labels in these lines.

Buyers commented favorably on the quality of Chinese plush toys, and a number of small orders of approximately \$50,000 were placed. INDUSTRY officials are interested in complying with child safety regulations in a bid to boost exports of metal and electrically operated toys. The National Council delivered a brief presentation on the topic, and further discussions will be held during the forthcoming Consumer Products and Handicrafts Delegation to China next April.

Small transactions in daily necessities were recorded, including an "experimental" purchase of pocket knives. Buyers from large department stores checked out such possible items as flashlights, stationery and other sundries, but found prices high and quality low. INDUSTRY sources revealed that the corporation is finding it difficult to sell musical instruments; while some customers made purchases, the amounts involved were not substantial.

The holder of an exclusive for Chinese clothespins came to the fair only to discover prices hiked sky-high. Unable to conclude purchases at the new levels, the importer lost his exclusive. "I spent two years developing the market and made very large deals at previous fairs. I've been deliberately priced out of my exclusive because the corporation sees more profits in going it alone," he remarked. As compensation, INDUSTRY offered exclusives on four new items, as well as new purchase terms considered very attractive. Although placated somewhat, the buyer feels the corporation will harm its market prospects if such practices continue.

In a reorganization of product responsibilities, leather jackets are now handled by CHINATUHSU.

Top exchange earners for the Arts and Crafts Section were listed as lacquer ware, cork pictures, cloissone, porcelain, stone carvings and jewelry. Although initial indications of major silk flower deals failed to materialize, some contracts were signed here.

Straw goods, the corporation's principal export product for the US market at the last four fairs, was a major disappointment. In an official's words: "The market is changing. Several buyers came, looked at our products, but made few purchases. We recognize this is largely our fault. We should change our styles to suit the US market, but we haven't changed fast enough." The same spokesman revealed that sales of willow products have continued, however. "In early 1975, we estimated that the straw goods market would be good for 2-3 years. Our estimate was basically correct. We feel that the willow market will remain firm for another year or 18 months."

Large cloissone deals in excess of \$100,000 were made by



US importers, and exclusives for special types were granted. Prices were up five percent over spring levels. When pressed for an explanation, a Chinese trader stated that the recently implemented wage increase had pushed up costs; he warned that future hikes were being planned.

Of the three large porcelain importers who accepted invitations to the fair, only one made substantial purchases. Serious problems with lead content are hampering the corporation's sales efforts. Federal regulations limit lead content to seven parts per million, but China's porcelain contains twenty parts per million, a fact which has led to rejections and at least one large claim. The sole buyer at the 42nd CECF found vastly improved packaging—including see-through covers and use of styrofoam—and greater willingness to arrange factory visits.

Antique contracts negotiated in Peking but signed in Canton helped boost fair totals in this line. Traders continue to complain over the dearth of interesting purchases at Canton's outlets, and several trips to Peking were arranged for "serious buyers."

INDUSTRY's import department signed purchase contracts for duplicating machines from a US supplier. Purchases of cigarette accessories—including acetate rods, filters, cellophane and papers—were made from Japanese, French and English firms; unconfirmed reports indicated US involvement as well. Scandinavian companies walked off with the bulk of pulp sales at rock-bottom prices, though pre-fair deals by North American suppliers were said to be large.

#### **MACHIMPEX—"Not the Place to Make Sales"**

Aside from a small sale of textile machinery, no US sales of equipment or technology took place at the 42nd CECF. There was a marked decrease in the number of US machinery firms who made the trek to Canton; "The message is setting in that the fair is just not the place to make sales" said one old hand. Companies that put in an appearance came to talk over minor points of previous deals, renew old contacts or hand over materials on new products and processes. The occasional inquiry for a product was made and, in a few instances, technical discussions were held. As usual, no representatives of TECHIMPORT attended and CHINAPACK's presence was distinctly low-key.

Other foreign traders reported disappointing results; spare parts and individual units, heavily discounted, were the staple items. A German machine tools dealer coming off five months of very successful negotiations in Peking criticized the level of MACHIMPEX cadres at the fair and bluntly stated "no business is being done." His remarks were confirmed by a German official at the end of the fair. The Japanese managed to sell approximately \$10 million worth of equipment of which "several million dollars" consisted of air compressors; another \$10 million had been sold at two "mini-fairs" staged, respectively, in Tokyo (August) and Peking (October).

As a rule of thumb, one old hand observed, machinery sales with a total value in excess of \$5 million should not be attempted in Canton.

Slow progress is being made in MACHIMPEX's drive to penetrate the US market. One firm reportedly bought 100 lathes with a total value of approximately \$150,000; Oriental-Cosmo personnel also attended and did business

for their Los Angeles office. A number of token purchases of instruments and meters also took place.

#### **MINMETALS—An Insatiable Appetite, But a D/P Default**

Exports of minerals and metals concluded at the 42nd CECF declined for all of MINMETALS's major customers. US purchases fell to approximately \$6.0 million from the previous fair's \$7.3 million, itself a drop from the \$8.5 million total registered at the autumn 1976 fair. China's imports of ferrous metals—notably steel and pig iron—hit new heights, however, as European and American companies cashed in on the Chinese corporation's seemingly insatiable appetite.

Early in the fair, a senior MINMETALS official informed the National Council that rising domestic demand had forced China to reduce the quantities of metals and minerals for export. Another cadre blamed the "gang of four" for disrupting the planned allocation of tin between home and foreign markets, noting that there was little of the product now available for export. Complicating domestic developments was the weakening of the US dollar; the bulk of China's foreign exchange reserves had been denominated in the American currency, and several traders reported concern on the part of MINMETALS over the rapidly deteriorating yen-dollar exchange rate. Finally, the corporation's quotes for traditional export commodities persistently topped LMB quotes by 10–20 percent during the first two weeks of the fair. Small wonder, therefore, that not a single contract between MINMETALS and an American buyer was conducted in the first week.

As the fair entered the second half, Chinese prices suddenly fell and began, once again, to mirror world levels. "Reasonable" prices of \$1.30 a lb. were quoted for antimony trioxide, down approximately 25 percent from spring levels. Acting on suggestions made by representatives of the National Council's Importers' Steering Committee, the Kwangtung branch of the corporation has changed packaging from 50-kilo plastic bags to 25-kilo single-lattice glass fibre bags. (Shanghai has yet to make the switch.) Realistic pricing and improved packaging assisted sales of antimony trioxide, but US buyers placed "rather small orders," in the words of a corporation spokesman. "They adopted a 'wait-and-see' attitude and the major importers waited until 4:00 PM on closing day to make their purchases. Unfortunately by that time we had already sold the US allocations to other markets."

The absence of big tin sales was singled out as the principal reason for MINMETALS's poor performance. Less than \$1.0 million of tungsten was sold to US firms; one major buyer left Canton for further talks in Peking. Small transactions in zinc ingots took place, but US buyers asked for 99.995 percent purity, whereas the corporation could only supply 99.96 percent purity. A few mercury and rare metal deals were also concluded.

The top exchange earner for MINMETALS was graphite; a number of US firms placed orders, and total bookings exceeded 2,500 tons. A sizeable purchase of barite by a large multinational was also made, and prospects for a long-term supply agreement were called "excellent." Some interest was expressed in Chinese granite and marble, but only token orders were booked due to difficulties with sizes.

# AMERICAN PLAN IN PEKING, SHANGHAI, AND KWANGCHOW 1977\*

	Cost in RMB	US Dollars <sup>1</sup>
<b>PEKING</b> —Peking Hotel		
Single room	50.00	27.02
Breakfast	1.80 to 2.50	0.97 to 1.35
Lunch	3.00 to 5.30	1.62 to 2.86
Dinner	6.00 to 7.10	3.24 to 3.84
Laundry	1.50	0.81
Taxis <sup>2</sup>	5.00	2.70
Total	67.30 to 71.40	36.36 to 38.58
<b>SHANGHAI</b> —Ching Chiang Hotel		
Single room	24.00	12.97
Breakfast	2.28	1.23
Lunch	3.00 to 4.00	1.62 to 2.16
Dinner	9.80	5.29
Total	39.08 to 40.08	21.11 to 22.11
<b>KWANGCHOW</b> —Tung Fang Guest House		
Suite	38.00	20.54
Breakfast	3.60	1.94
Lunch	3.00 to 6.30	1.62 to 3.40
Dinner	9.00	4.86
Laundry	1.00	0.54
Dry Cleaning	2.00	1.08
Total	56.50 to 61.90	30.58 to 32.36

\* Based on reports of visitors to China in August and November 1977.  
<sup>1</sup> RMB/US\$ = 1.85 (8/77).  
<sup>2</sup> Transportation from hotel to airport costs 30 RMB (US \$16.22).

In late summer, MINMETALS decided to offer D/P terms to US customers, a reform long advocated by importers. Three US firms signed contracts calling for D/P reimbursement, but one of the companies defaulted on a 20-ton shipment of antimony trioxide from the Kwangtung branch. (The branch has lodged a claim against the importer with the CCPIT.) In the words of a MINMETALS official, "We have used D/P terms with European customers for more than 20 years, and instances of default are extremely rare. But after only three such deals with US firms the problem has already arisen." MINMETALS is now reviewing the whole question, and for the meantime no D/P business is being done. In the future, this means of payment may be offered to "old friends," but the corporation intends to carry out careful "credit investigations" first.

Importers interested in Chinese hardware came to the fair and two US firms made purchases of wire nails. One company sought an exclusive, but MINMETALS has not yet determined its policy on whether agencies should be nation-wide or regional, and if regional, how the boundaries of exclusivity should be drawn and enforced. A spokesman revealed that the idea of a joint hardware mini-fair sponsored by MINMETALS, INDUSTRY and MACHIMPEX has been revived and importers can expect new developments shortly.

## CHINATUHSU—Feathers Cause Injury, Re-export Prohibited

The Native Produce and Animal By-Products Corporation (CHINATUHSU) racked up sales of nearly \$15.5 million to US firms at the 42nd CECF, thereby meeting last spring's record volume. Approximately two thirds of the corporation's sales were made by the Animal By-Products Section, and once again products handled by the

Feather and Wool Department emerged as the top foreign earners at the fair.

Demand for raw and semi-processed feathers and down shows no sign of waning. The opening day sprint for the feathers rooms was unparalleled both in terms of numbers of contestants and the ferocity of their behavior; at least one trader suffered minor injuries in the mad scramble for appointments. Fifty-plus firms lined up at the opening found CHINATUHSU's new emphasis is on manufactured goods and a willingness to accept US-made fabrics and zippers.

First in the door was an American buyer, a result symbolic of the results to follow. Allocations for the US market—which averaged 15–20 tons per buyer—were by far the largest, and the total volume for all grades was reliably estimated at 400 tons. This compares favorably with the US allocation at the previous fair; although few traders found cause to celebrate, several reported modest increases in quantities offered by CHINATUHSU.

Prices for US-destined feathers and down ranged from \$6–7 per kilo for low-grades to \$45 per kilo for top-grade down, representing an average increase of 27 percent over spring levels. European buyers encountered price hikes of 17 percent, while Japanese buyers (who generally received miniscule allotments) paid only 10 percent higher prices. To enforce this discriminatory policy, CHINATUHSU inserted a clause in all European contracts prohibiting re-export to the US.

US buyers were naturally displeased with these developments, and one French firm remarked that the reexport prohibition would have little impact since the raw materials undergo processing in Europe after delivery. CHINATUHSU, for its part, defended the policy by saying that it was "normal practice" to quote different prices for different markets, and it was not uncommon for US buyers of other corporation produce—cassia being singled



out as an example—to enjoy cheaper prices than their European counterparts.

A number of contracts in excess of \$100,000 were reported in feather and down ski jackets; total US purchases in this line amounted to approximately \$1.5 million. A large order of comforters was also booked, bringing finished product sales to the \$3.0 million mark. Ski jacket transactions were lower than the spring fair as most companies prepared for major bookings at the upcoming mini-fair in Shanghai (slated to open on January 20).

Knowledgeable buyers opined that recent California court actions against retailers of down ski wear—in which more than 30 companies were charged with selling low down-content garments mislabeled as 70 percent down—would have a beneficial impact on Chinese sales to the US. CHINATUHSU has boosted the down content of ski jackets to 90 percent, and has taken steps to comply with care labeling and other market requirements. Unfortunately, tariffs on Chinese down garments are high—a staggering 60 percent—and minor quality problems with zippers, nylon, stitching and color combinations continue to crop up.

Carpet sales fell short of the volume achieved at the spring fair, though last-minute deals pushed US deals up to “nearly \$1.0 million.” Several of the major importers stayed away, incensed over CHINATUHSU’s pricing policy of offering carpets to importers and department stores at the same price. A spokesman for the Carpet Department stated that the policy “is under review and we are making active investigations in an effort to come up with a reasonable price structure.” In the meantime, the department has requested the Council’s advice and looks forward to a presentation at the upcoming Carpet Mini-Fair to be held in Peking in January-February.

CHINATUHSU is no longer granting discounts to importers who undertake advertising programs in the US, but is still willing to consider “quantity discounts.” As part of the general shake-up in the department’s marketing strategy, a spokesman revealed that the policy on granting exclusives is also under review.

In other animal by-products, quantities offered to US buyers declined precipitously from spring levels. Cashmere was especially scarce, although a five percent price rise helped CHINATUHSU conclude contracts in excess of \$1.0 million. Minor transactions in fine hairs were registered; prices for rabbit fur declined, on average, 30 percent. Some casings were purchased by a European firm for its US office; bristles business is no longer carried out at trade fairs as buyers prefer to deal via telex.

A senior official of CHINATUHSU’s delegation emphatically denied that the corporation planned to phase out raw by-products exports in favor of boosting sales of finished goods. “Our export policy is guided by world market conditions. We will continue to sell both raw materials and finished goods,” he said. The official admitted, however, that “an increase in the variety of our products” could lead to a decline in supplies of raw by-products, but refused to be drawn out further on future policy.

Following the conclusion of a large essential oils conference in Japan, buyers flocked to Canton in the opening week and depleted Chinese stocks with several sizable purchases. Prices of cassia oil and aniseed oil topped world levels by significant margins, but the major US buyer

signed some contracts. Brokers reported some action in geranium and sassafras oil, though here, too, prices were high. Pine nut oil was available in limited quantities, but Americans met little success in prying loose supplies of cashew nut oil. Total corporation sales to the US did well to top \$1.0 million; corporation spokesmen revealed that a US firm had been invited to Peking for a technical presentation following the close of the fair.

In spices, buyers confronted a similar situation: tight supplies and high prices. A number of transactions in cassia and ginger were concluded, but the principal garlic buyer went away empty-handed. Chilis were quoted at 10¢ a lb. higher than world levels, and complaints were also voiced over licorice, though an agent successfully scored several tons. Buyers of dried fruits and vegetables generally fared poorly.

Middle Eastern buyers reportedly made purchases of seeds and nuts at unreasonably high prices, and this development adversely affected US prospects in this line. Nevertheless, business was done in cashews, walnuts, sunflower seeds and pine nuts. Volumes for US companies rarely exceeded \$100,000; total purchases probably fell short of \$500,000.

One firm concluded sizable gum rosin deals prior to the fair, but reported that its fair purchases were not bound for the US market. CHINATUHSU is not optimistic over prospects in the US market, citing large inventories and domestic supplier capabilities as major restraints.

Tea sales proved to be a major disappointment for the corporation. Having doubled prices at the last fair, the Tea Department halved prices at the 42nd CECF in an effort to stimulate flagging demand. Despite this move, the major buyers stayed away and few big deals were registered. Small transactions took place in Yunnan coffee, but the high price of cocoa precluded business in this line.

Fireworks activity picked up dramatically in the latter half of the fair. US buyers came in force, prepared to sign big orders, but CHINATUHSU continued to quote prices as much as five percent higher than those offered by Hong Kong distributors for identical goods. In light of favorable delivery terms and quality guarantees offered by the Hong Kong companies, US buyers understandably placed the bulk of their orders in the British-administered territory. (Industry sources estimated US purchases in Canton at \$500,000; purchases of Chinese fireworks from Hong Kong distributors exceeded \$2.0 million.) The chief of the compliance division of the Consumer Products Safety Commission accompanied a group of US fireworks buyers to the fair; CHINATUHSU envisions no problems in modifying production to meet the commission’s new manufacturing, fusing and labeling requirements.

In an interesting structural change, CHINATUHSU has established the Kwangchow Forestal Export Department “to centralize the management of business transactions in export fireworks and firecrackers for Kwangtung, Hunan, Kwangsi, Kiangsi and Peking.” As from October 1, buyers have been asked to refrain from dealing with the head office and to place all orders with the new department (cable: FORPED KWANGCHOW, telephone: 30849).

A number of exclusives were granted for Chinese ginseng and medicinal herbs; this area continues to expand and total purchases at the 42nd CECF topped \$200,000. The corporation is amenable to meeting FDA labeling

**ESTIMATES OF US BUSINESS  
CONCLUDED AT 1977 CECF'S: TOTALS BY  
FTC  
(Current US\$ Million)**

	41st		42nd	
	Sales*	Purchases*	Sales	Purchases
CEROILFOOD	2.0	—	2.1	—
SINOCHEM	1.9	15.0	2.0	12.0
INDUSTRY	6.5	0.6	7.9	1.2
MACHIMPEX	0.5	1.5	0.5	0.1
MINMETALS	7.3	0.5	6.0	4.6
CHINATUHSU	15.5	—	15.5	—
CHINATEX	7.0	12.0	15.6	—
<b>TOTAL</b>	<b>40.7</b>	<b>29.6</b>	<b>49.6</b>	<b>17.9</b>

\* China's sales and purchases

requirements and will refrain from making health claims.

A sizable purchase of cotton waste was made at the fair, and the US buyer successfully negotiated a long-term supply agreement. In bamboo ware, a weak US market was blamed for a "moderate" drop in volume but CHINATUHSU remains confident of its ability to modify styles to suit consumer demand.

CHINATUHSU's Import Department enjoyed its most active fair in recent memory. Foreign firms sold feeding stuffs and other animal husbandry products, as well as hides, leathers and skins and essential oils. Unfortunately, no US-sourced sales were registered, though involvement by US subsidiaries in Europe was confirmed.

#### **CHINATEX—Inspection Procedures Upgraded**

The Textiles Corporation (CHINATEX) enjoyed its best sale to US buyers since the autumn fair of 1975. Volume at the 42nd CECF—an estimated \$15.6 million—was more than double that of last spring's fair.

The sharp upsurge in textile business is attributable to many factors. A thorough "rectification campaign" in the garment centers of the Yangtze Valley and Northeast China has borne obvious and welcome fruits; visitors to enterprises in Shanghai report improved discipline among the workforce and greater cooperation between CHINATEX personnel and factory management. Inspection procedures have been upgraded, and there has been a sharp drop in delayed deliveries. A representative of a major American department store chain could not remember a single delayed shipment in 1977.

Idle capacity has been brought on stream, and the early sell-outs which plagued the previous three fairs were absent. Several buyers from Hong Kong arrived early and placed substantial orders; returning to Canton in the final week, they were pleasantly surprised with additional offers of such items as greige goods, silk piece goods and work gloves. If MACHIMPEX purchases of textile machinery at the fair are any indication, China is committed to substantially increasing its capacity to export textiles in the months ahead.

On the marketing side, CHINATEX personnel aggressively solicited information on US styles and fashions; at one market presentation delivered by the National Council's Textiles Sub-Committee there was attracted a large, receptive audience. Corporation branches have taken to submitting detailed requests to US firms for dictionaries, measurement books, buyer manuals . . . "anything to help improve our understanding." Several buyers reported faster delivery of samples and greater willingness to specify colors after contract signing. Accessories—and in some cases, materials—are being accepted from the buyers with greater frequency. "Double labels" are readily offered to "new friends" and "combination labels" are commonplace for "old friends;" CHINATEX has not yet accomplished a total return to its private label policy of late 1975, but experienced traders feel the door is still open for further talks.

Of the \$15.6 million total, approximately \$8.5 million was accounted for by ladies' and mens' garment sales and \$4.5 million was due to contracts for greige goods. Prices for cotton goods fell 8–10 percent from spring levels, and the firming of the US market led to late-fair sell-outs in 64x56 and 60x48 cuts. Buyers reported that all exports of greige goods have been centralized in the head office. Sales of silk piece goods—down in price by 2–5 percent—made solid gains, reflecting initial successes of the corporation's export drive in this line. A CHINATEX spokesman revealed that contracts for nearly \$1.0 million of silk garments had been signed in the first five days, compared with a full-fair volume for the US market of only \$200,000 at the preceding spring session.

Activity in woolsens was slow, though here too prices were down by approximately 10 percent. The Kwangtung branch was said to have large stocks of denim; there were few takers. Cashmere sweaters, on the other hand, were unobtainable since August, though rumor was that the corporation was attempting to tie sweater sales to the buyer's acceptance of inferior acrylic goods at a ratio of one dozen cashmere to five dozen acrylic. Children's garments saw slight activity; for some items, price hikes of 70 percent were registered.

An area receiving increased attention from corporation planners is work clothes for America's huge industrial market. Well-placed sources in Hong Kong report that China's state agencies are taking advantage of a local textiles slump to buy up large quantities of secondhand machinery destined for a new textile mill outside Canton. These same sources have indicated that the mill will specialize in work clothes. At least one major order of industrial garments worth approximately \$500,000 was placed by an American buyer at the 42nd CECF, and several transactions in excess of \$50,000 were reported for work gloves. Buyers of the latter product were told that the corporation is considering granting an exclusive for the popular cotton twill variety, though by November 15 no decision had been made.

In contrast to the last two fairs, no sales of US-sourced polyester fiber were made in Canton. Principal suppliers explained that negotiations are now carried on in Peking, and reported large deals concluded in the weeks immediately prior to the opening. Japanese firms, however, sold approximately 30,000 tons of polyester fiber at the 42nd CECF.

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# Exporter's Notes

## Briefly:

- "Chinadollars" make debut: With an estimated \$1 billion trade surplus this year, following a \$1.245 billion hard currency surplus last year, China has lodged more than \$2 billion on the Eurocurrency market during 1977.
- China ready to buy more plant and technology than ever before; Peking's massive accumulation of hard currency portends a new foreign trade era for the PRC. Peking could buy about \$3-7 billion worth of foreign plant and technology during the next three years.
- On the PRC's new shopping list from abroad—military equipment though no commitments yet.
- Meanwhile, a dull fall for exporters to China turns to a bleak winter, with only sporadic sales noted. But Peking is Grand Central Station for US firms.
- National Supply sells offshore drilling rigs to China.
- American soybeans committed to China; cotton sales, too.

## CHINA'S GREEN FOR GO

China is on the verge of the biggest round of foreign purchases it has ever made—the prospects for sales to China are the best they have been in several years. The PRC's world trade should reach about \$13.5 billion in 1977, up from \$13.3 billion in 1976, according to newly revised US government figures. By 1980 it will be \$18 billion and in 1985 about \$29 billion, if it increases 10% yearly in current terms.

- Financially, the PRC is in an excellent position. Peking has no cash problems. The PRC's foreign exchange standing has been improving steadily, with a hard currency surplus of \$1.245 billion in 1976 and one of about \$1 billion this year. China's net Eurocurrency position was \$2.1 billion as of June, 1977 (from banks in eight countries). In other words, European banks were borrowing \$2.1 billion from the Bank of China as of mid-1977, an increase of over \$2 billion from a year earlier.

- Based on a 20% repayment service ratio of obligations to hard currency exports and a 10% yearly rise in hard currency exports, China can afford to buy at least \$7 billion worth of foreign plant and technology during the next three years, more than twice the amount bought during the 1971-75 Five Year Plan. Even at the most conservative rate of a 15% ratio with 5% yearly growth, China can afford to buy at least \$3 billion worth of plants in the next three years.

- The main thrust of the recent various talks of "special" financing arrangements with the French, Germans, Japanese, and British has been to provide mutual deposit and Exim facilities relating to specific package deals: mining and steel plants from Germany, oil drilling equipment from France, petrochemical and other plants from Japan, and military jets from the United Kingdom. Establishing terms—of 7% for 5+ years—has been China's chief interest. In other words, Peking has been "setting up" for a new round of huge plant purchases in the same way it did in 1971-72 prior to the previous round. Only a poor harvest next year will slow things down.

- The US is not included in these talks, but progress payment financing as in the Boeing and Kellogg sales remains possible and the outlook is good for US firms. The Chinese themselves have projected \$800 million worth of US sales to China for 1978, and the next three years could mean \$1.5-3 billion worth of Sino-US trade.

## THANKSGIVING IN PEKING

It was almost Home Sweet Home for 38 Americans sharing Thanksgiving Dinner at the Peking Hotel, complete with turkeys (from California), cranberry sauce, sweet potatoes, string beans, and apple and mince pies. Two wives of Pullman Kellogg representatives worked with the cooks at the Hotel for a week to prepare the meal, which one participant called "one of the best Thanksgiving meals I've ever eaten." The head cook received great appreciation from his customers. Characterizing the present state of the China trade, everyone at the dinner was oil-related. Among the diners: executives from Otis Engineering, National Supply, Stewart & Stevenson, Marathon LeTourneau, Texas Instruments, and Solar Turbine, as well as representatives of WJS, Inc., Inter-

national Corp of America, Baker Trading, and Chase Pacific Trade Advisers, and members of the National Council's Petroleum Equipment Delegation.

## GENERAL

**A Happy New Year?** American exports to China limped into the final months of the year with total US exports through October at a dismal \$95.8 million. Only if soybean and soybean oil shipments already ordered are sent this year, does hope remain that 1977's total sales to the PRC will top \$135 million sold last year; but reports of improvements continue to be heard in Peking. One Chinese official predicted to a US audience that 1978 would be similar to 1974 for US exporters. If that is true, American business with China will have to pick up smartly to equal the record-breaking year of more than \$800 million in US sales to China. The American presence in China remains strong: For the first time, Japanese executives are complaining that there are more Americans than Japanese in the Peking Hotel. Sporadic reports of individual sales—such as Rolligon's trucks (see page 3) or National Supply's oil rigs—continue to crop up, but major US deals and shipments aren't expected until sometime in 1978.

## CHINA'S IMPORT PROGRAM—DEBATE STILL ON

China's need to import technology seems to be clear, but domestic debates still apparently continue to delay progress. **Importing Technology** On November 11 Peking's influential *People's Daily* indicated that the traditional debate for and against importing foreign technology is still on. The article stated that while the "right and wrong" of introducing foreign technology should be clear, unfortunately there are still "comrades who do not understand this," suggesting serious opposition to things foreign still exists.

## CHINA'S FINANCES

The Bank of China has been quietly swinging its ledgers firmly into the black, recording an estimated \$1 billion hard currency surplus this year, following a surplus of \$1.245 billion in 1976. In the second half of 1976 and the first half of 1977, nearly every one of China's industrialized trading partners ran up a deficit with the PRC. As one result, China rose from being a \$109 million net borrower on the Euro-

# Financing China's Imports, 1978-1980 (\$ millions)

Value of Plants China Could Buy with  
Maximum Funds Available and Payments  
Due Under Assumptions

	Assumptions A and C * 20% / 10%	Assumptions A and D 20% / 5%	Assumptions B and C 15% / 10%	Assumptions B and D 15% / 5%
Yearly Plant Purchases, 1978-80	2,466	1,821	1,516	1,029
Total Plant Purchases, 1978-80	7,398	5,463	4,548	3,087

	I† Funds Available	II Payments Due	I Funds Available	II Payments Due	I Funds Available	II Payments Due	I Funds Available	II Payments Due
1979	572.7	187.2	448.7	138.2	224.7	115.1	131.7	78.1
1980	797.8	538.8	597.8	397.9	414.7	331.2	264.8	224.8
1981	1090.1	1090.2	805.1	805.1	670.1	670.2	455.1	454.9
1982	1448.4	1356.8	1064.4	1001.9	985.4	834.1	697.4	566.2
1983	1754.4	1369.4	1258.4	1011.2	1245.4	841.8	873.4	571.4
1984	1983.4	1182.2	1360.4	873.0	1360.4	762.8	956.4	493.3

\* Assumption A is that PRC planners will import the maximum amount of plants and equipment provided payments coming due in any given year (plus payments due on agricultural sales) do not exceed 20% of total hard currency exports in that year. Assumption B is that PRC planners will import the maximum amount of plants and equipment provided payments coming due in any given year (plus payments due on agricultural sales) do not exceed 15% of total hard currency exports in that year. Assumption C is that PRC 1977 hard currency exports equal 1976's and thereafter grow by 10% (real). Assumption D is that PRC 1977 hard currency exports equal 1976's and thereafter grow by 5% (real). China's 1977 hard currency exports assumed to be \$5.75 billion.

† Column I shows the maximum amount of hard currency available to service deferred and progress payments, under assumptions listed above, in light of previous plant and grain purchases and in anticipation of probable future grain purchases. Column II shows the payments due in the appropriate year if the maximum possible plant purchases are made under the assumptions listed above.

currency market in June, 1976, to a \$2.1 billion net lender in June this year: China's liabilities with reporting banks declined from \$489 million in June, 1976, to \$379 million in June, 1977, while its assets sprang from \$380 million to \$2.46 billion in the same period, earning the PRC plenty of interest from European banks. (This is according to Bank of International Settlement statistics of accounts of the banks of eight major Western countries.) While the PRC's trade program has been disheartening for many foreign exporters, now asking themselves what they've done wrong, the prospects for sales to China look the best in years. China has had its feelers out for more financing arrangements, though nothing seems firm at the moment. Ever since a BOC delegation traveled to Europe during May and June, rumors have circulated periodically of large Western loans and other financial supports for the PRC. The September 23 issue of *European*

*Chemical News* reported that some \$1.8 billion of lines had been opened for the PRC by British, French, and German banks, a report as yet unsubstantiated. Officials from Germany's Deutsche Bank hinted strongly that it would soon make long-term deposits in China as well as finance deferred payments for Chinese purchases. By mid-November the media reported that France's Bank Nationale de Paris was "close" to signing an agreement to supply the Chinese \$250 million (at a possible 7% over five years) to finance French oil field drilling technology and equipment sales to the PRC. In other accounts, Britain's National Westminster, Credit Suisse, and Morgan Grenfell were mentioned as being connected to new Chinese financial deals. The form of financing, suggested by these recent reports, is bank-to-bank deposits in China. This mechanism entails a foreign bank making a deposit in the Bank of China for a fixed period of time, usually six months to two years,

and receiving a competitive interest payment on its capital. This sort of financing, while not a loan, is traditionally used to finance short-term capital shortages for the country in which the deposit is made. In addition, **during discussions on the Sino-Japanese trade agreement this fall, Chinese negotiators indicated that they sought to continue the use of deferred payments for plant equipment. Their preference is, reportedly, for payment periods at least five to ten years, although seven or eight years would also be acceptable.** Interest rates would be negotiable, but the Chinese indicated that higher interest rates or shorter payment periods would tend to restrict the volume of their imports. **American banks, because of the problem of claims/assets, have been excluded from such arrangements;** but the First National Bank of Chicago, in an apparent show of good will, recently announced its decision to



deemphasize its relations with Taiwan.

### HOW MUCH PLANT CAN CHINA AFFORD TO BUY?

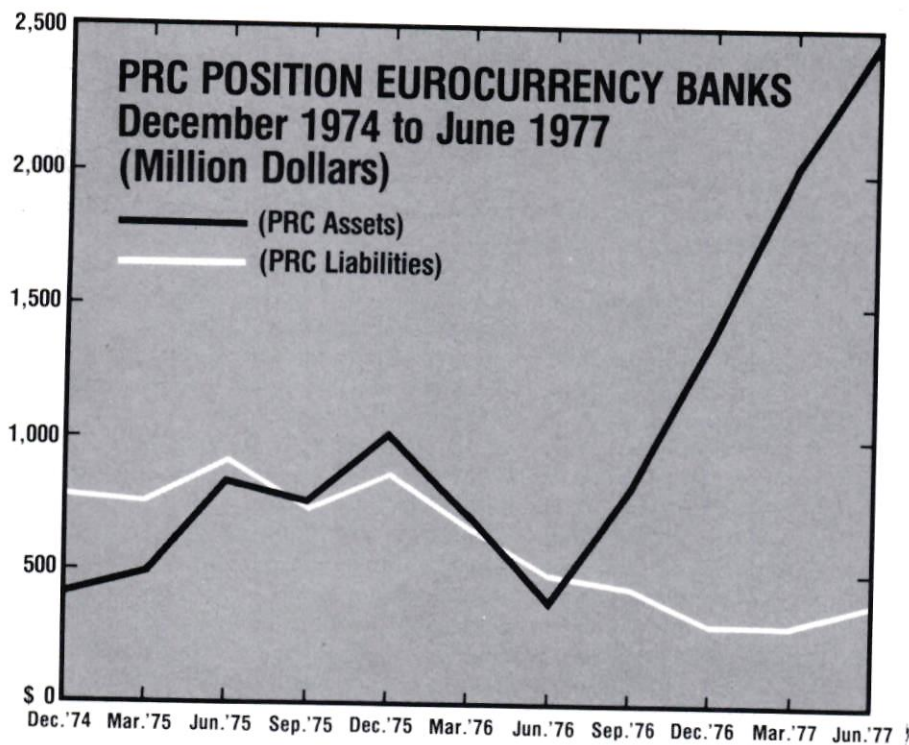
How much foreign equipment will China be able to import in the next few years without abandoning the conservative financial policies the country has embraced for the past twenty-eight years? The key to estimating China's financial strength lies in agricultural purchases. In 1977, China will import over 7 million tons of grain, valued at roughly \$750 million. Judging from preliminary reports on this year's harvest in China, one would suspect that grain purchases in 1978 will probably reach approximately the same level. Together, these two years' purchases will put an immediate burden on China's financial resources. Obligations on these purchases have already committed China to \$450 million of payments in 1978 and, probably, 1979. **With improved crop conditions, however, China's agricultural expenses abroad could decline considerably in the 1980's.** As part of the payment scheme for plants purchased between 1972 and 1977, China had to pay over \$400 million in obligations this year. In 1978 slightly more

will be owed, but by 1979 commitments due will fall to just over \$360 million and then below \$300 million by 1981. (For details, see *CBR* 4:2, p. 13-21.) If the Chinese decide to make major purchases of Western plants and equipment between 1978 and 1980, the bulk of the payments on these deals will not come due until 1982 or later, provided progress payments or deferred payments of at least five years are used. The amount that China will import will be limited by the willingness of the nation's leadership to allow itself to incur foreign obligations. In the past China officials appear to have set a 15%-20% repayment service ratio as an acceptable limit. Assuming that China will keep to the 20% limit and that Chinese hard currency exports will, after remaining static in 1977, grow an average of 10% per annum in the following years, China could import some \$2.5 billion of Western plants and plant equipment per year for the next three years or \$7.4 billion worth of plant and plant equipment through 1980. This estimate assumes that, as in the past, one third of the financed plants will employ progress payments and the remaining two thirds will be financed through deferred payments

with terms of at least five years. Using the more conservative assumption that China's hard currency exports will only grow 5% per annum and that the Chinese leadership will restrict obligations coming due to 15% of its total hard currency exports, one could still predict that China can import over \$1 billion of plants in each of the next three years, or a total of \$3 billion in plant and plant equipment. With more moderate assumptions, one could expect China to be able to import between \$1.5 and \$1.8 billion of foreign plant hardware (See table). As China heads into the buying phase of the delayed Fifth Five-Year Plan (1976-1980), its financial position seems sound. With the bankers of the world beating a path to its door, China can relax somewhat as its exchange reserves continue to expand. But possibly the constraining factor on China's imports will be not the country's ability to pay for the equipment, but rather its capacity to absorb that equipment into the economy.

### NATIONAL SUPPLY SIGNS FOR RIGS, CATERPILLAR MAKES NEW SALES

In the first sign that the Chinese are ready to make major purchases of US petroleum equipment in the Fifth Five-Year Plan, Armco's National Supply has sold two offshore oil drilling rigs to China this fall. Valued at \$15-20 million, the two National 1320 rigs will be delivered to China in 1978. The first rig to be delivered will be completely packaged for installation on a Chinese-constructed platform. The second will be sent to China for packaging there. The drilling equipment, with a drilling depth of 20,000', is similar to the hardware mounted on the three jack-up drilling rigs sold to China in recent years. Unlike those rigs which were mobile units intended for oil exploration, the National Supply rigs, being designed for stationary sites, will be used solely for production drilling. Among the American companies scheduled to supply equipment for the rigs are Caterpillar (engines) and General Electric (generators and motors). National Supply first became aware of the Chinese interest in the rigs following a company technical presentation, made in June, 1977, when the Chinese submitted an inquiry on the units. Corporate negotiators returned to Peking in September



Note: PRC assets and liabilities in country banks as reported to the Bank of International Settlements. Banks of Belgium-Luxembourg, France, Germany, Italy, Sweden, the United Kingdom and the United States (domestic) are included for the entire period covered. Netherlands banks are included since March, 1975, and US banks in the Bahamas, Cayman Islands, Panama, Hong Kong, and Singapore are included since October, 1975. Assets and liabilities are measured at period ends.

1977, with a prepared proposal, and landed two contracts by mid-November. Additional contracts for parts and supplies are currently under discussion, and Chinese technicians will travel to Houston in 1978 to observe assembly of the rig.

**Caterpillar makes fourth sale to China** Caterpillar Far East Limited signed a contract in August, 1977, with MACHIMPEX for the sale of 120 D-399 packaged drill rig power units (1050 kw) for use in petroleum appliances. The 1,300-hp, V-8 engines can be used to power drilling rigs or to operate mud pumps in oil fields. Four of the engines are gas powered, and the remainder are diesel driven. The contract calls for delivery of some of the engines in 1977, but the majority will be sent to China in 1978, with delivery to be completed by mid-year

### MAPMAKING AND PRINTING SYMPOSIUM HELD IN PEKING

The China National Light Industrial Import and Export Corporation invited three Western firms to Peking this September to hold a two-week seminar on printing and cartography. Under the direction of East Asiatic, America's Du Pont, along with Germany's Klimsch and Kalle, staged one of the most extensive technical presentations to be held in China in recent years, resulting in the immediate sale of some \$300,000 of printing equipment used in the presentations. The proposal for the trip stemmed from a trip by a Klimsch specialist to China in 1975. Based on his recommendations, East Asiatic put together a team of complementary companies: Klimsch covering photographic cameras, equipment, densitometers, and optical devices; Du Pont for films, processing equipment and photopolymer printing plates; and Kalle on lithographic printing plates. The seminar team comprised four Klimsch executives, including the company's president, three Du Pont officials, and two Kalle representatives, as well as two East Asiatic staffers. The seminar itself was divided into ten days on printing and four days on cartography, covering rectifications of aerial maps, the process of map-making, Cronaflex processing and Cromalin color proofing, and proof making for printing. As part of the demonstration, Du Pont brought in a general purpose Cronalith 24L processor for line, halftone, and color separation, a Cromalin 2700

laminator and 3042 console for color proofing, Dycril plate making equipment for letterpress printing, and Cyrel plate making equipment for flexographic printing. Klimsch had previously sold China a Super Auto Horika 2000 overhead process camera and also shipped an Auto Vertical T camera for use during the symposia. Kalle supplied equipment for producing lithographic plates. Although not a seminar participant, Heidelberg of Germany sent an offset printing machine into China for use during the talks. The Western participants in the

seminar were favorably impressed by the level of equipment in use in China at the present time. During a visit to the PLA *Daily News* printing shop, the delegates saw a Du Pont 24L processor and a Cronalith blender in operation, apparently imported through Hong Kong. This equipment was being operated in conjunction with a British Crossfield Magna Scan 460, which electronically scanned and separated material onto halftones on lithographic film. For letterpress printing the Chinese seemed to have relied upon the importation of Heidelberg equip-

### WHO SUPPLIED WHAT EQUIPMENT

**Propulsion:** 4-General Electric Model 7512 DC motors each rated at 850 HP continuous; **Power Plant:** Four Bergen diesel engines, type KVGB-12, 12-cylinder, 4-stroke turbocharged, 900-RPM, 2200-HP driving AC generators; **Mooring:** Eight Anchors, LWT type, 30,000 lbs; Four Windlasses, Norwinch, double wildcat type, driven by 330 HP AC electric motor and hydraulic pump; **Positioning System:** Riser Angle Indicator, Honeywell RS-505 Model; **Derrick:** Continental Emsco 160' beam-leg Dynamic Derrick, 40' x 40' base, 1,400,000 lb API capacity equipped with traveling block guide and 650 ton, 8-60" sheave Crown Block grooved for 1½" line; **Drawworks:** Continental Emsco Model C-3 Type II driven by three General Electric Model 752, 800-HP DC electric motors, with Lebus groove for 1½" drill line, 22,500 feet 9/16" Sand line, Crown-O-Matic, and Elmagco 7838 Electromagnetic Brake; **Rotary Table:** Continental Emsco T-4950, 2-speed, 49½" opening Rotary, powered by a General Electric 752, 800 continuous HP DC motor; **Motor Compensator:** Rucker/Shaffer Model 18/18 traveling block heave compensator, 400,000 lb hook capacity, 18 ft travel; **Traveling Equipment:** Traveling Block, Continental Emsco, type RA-60-7, with 7-60" sheaves grooved for 1½" line with 650 ton capacity; Hook, Byron Jackson, Type 5750 Dynaplex, with automatic positioner, and capacity of 750 tons; Kelly, Drilco, hexagonal 6" x 54'; Power Sub, Varco, Type 6500; Swivel, Continental Emsco, Type LB-650, with capacity of 650 tons; Kelly Cocks, Omsco, upper and lower, 15,000 psi test; **Casing Stabbing Board:** Stabbing Board, S&R Tool, hydraulic "cherry picker"; **Stabbing Arm:** Hydraulic Stabbing Arm, Lamb, pedestal mounted on rig floor to stab casing; **Rig Floor Equipment:** Mousehole Back-up Tool, Ideco Mouse-o-matic; Spinning Wrench, Varco, Model 10 air powered; Kelly Bushing, Varco, MPCH pin drive; Casing tools, Varco, Model 500 Ton; Make-up/Break-out tool, Drilco, EZY Torque used for drill collars; Casing Tongs, Lamb Model 16,000, hydraulic tongs for 4½" through 16" casings; Choke Manifold, Cameron, 3"-10,000 psi working pressure with 3 choke bodies and provisions to accommodate an automatic adjustable choke, Measuring Unit, Cedco, electric-hydraulic wire line unit with 25,000' of .092" wire line; Air hoists, Ingersoll Rand, Model K6UL, four placed at strategic positions for equipment handling; **Mud Pumps Drilling:** Two Mud Pumps, Continental Emsco, Model FA-1600 7½" x 12" triplex, each powered by 2 General Electric 752 800 HP DC electric motors; **Mud Mixing and Treating Equipment:** One Shear Pump, Continental Emsco, model F-350 6¾" x 7" triplex driven by GM 12V71N diesel engine; Three Mud Mixing Pumps, Mission, 6" x 8" centrifugal pumps each driven by 75 HP AC electric motor;



ment, and, in offset printing, the majority of the Chinese units in operation are based on Japanese Roland equipment. Photographic preparation processes were, according to members of the team, one area in which China may need more attention. But, in some extremely advanced areas, the Chinese printing industry is well, if not overly, supplied with foreign equipment. For instance, it is estimated that China has over 30 electronic scanners of European origin in use at the present time, each valued at roughly \$300,000. Approximately half of the units are

Rudolph Hell's DC 300's from Germany. Initial indications are that the trip was a success, according to company spokesmen, and at least one of the participants, Du Pont, looks forward to holding another printing seminar in Peking, perhaps in 1978.

#### AGRICULTURE

**US supplies cotton, soybeans and soybean oil to China** In the final months of 1977, the Chinese have committed themselves to importing soybean oil in addition to cotton from the United States. As was true in the past,

the Chinese are using American producers as suppliers of last resort for agricultural products. As of November 20, the USDA reported that China is firmly committed to import 51,400 tons of soybean oil from several of the major US agricultural exporting companies. This news comes after Chinese foreign trade officials allowed two optional contracts on US soybean oil to expire earlier in the year: In July, an optional Chinese order surfaced for 10,000 tons of oil and later, in October, a second optional contract appeared for 5,000 tons of oil. Based on current market prices, the value of the 51,400 tons imported by China probably runs slightly over \$21 million. Delivery is expected by the beginning of 1978. In soybeans, China earlier in the year did have an option on part of a 390,000-ton order made last March, but, as of mid-November, it had only exercised that option on 23,754 tons of soybeans, with another 51,402 tons committed to be sent by the year's end. **China cancels cotton contracts, then makes new purchases** In the cotton trade, China began the fall of 1977 by cancelling 20,000 bales of US cotton contracts, reducing the total volume of US cotton contracted to go to China in the 1977-8 market year from 193,000 bales to 173,000. Shortly thereafter, Chinese trade officials signed new contracts for 40,200 bales of cotton and then still another set of contracts for 30,400 bales. As of the end of November, Chinese buyers were committed to importing 242,600 bales of US cotton before the end of the current crop year, July 31, 1978; almost all of the shipments are expected to be made in calendar 1978. Some experts reason that the Chinese cancelled the earlier contract and agreed to pay cancellation penalties in order to take advantage of the current low prices on the cotton market. **Chinese committed to over \$110 million of US agricultural products** Even without buying American wheat in 1977, the Chinese have committed themselves to a substantial amount of US agricultural production, apparently totaling over \$110 million, based on current market prices: cotton (\$72.8 million), soybean oil (\$21.6 million), and soybeans (\$16.9 million). Although no part of the cotton will probably leave the United States this year, a large portion of the soybean oil and soybeans, perhaps as much as \$30 million, will. 完

#### ABOARD THE BORGNY-DOLPHIN

Four Mud Agitators, Philadelphia; Degasser, Welco, Model 5200; Desander, Pioneer, Model S4-12 with 4-12" cones; Shale Shaker, Centrifuge, dual double-screen shaker; **Bulk Material System:** Eight Halliburton Storage Tanks, 2170 cu ft each; Two Halliburton Surge Tanks; **Cementing Unit:** Halliburton HT-400 twin diesel driven cementing unit; **Distillation Units:** Two waste heat units rated 200 GPH; One Aqua-Chem Model S300 SPEC-E vapor compression unit rated 330 GPH; **Deck Cranes:** Two Aker Deck Cranes; Capacity of 40 L Tons at 40 ft, 15 L Tons at 120 ft; **Blow-Out Preventers:** Two 18¾" Double Ram type Blow Out Preventers, 10,000 psi working pressure, Cameron Subsea type U doubles equipment with clamp hub and with 2-4" outlets below each set of rams; Two 18¾" 5,000 psi working pressure Shaffer annular preventers equipped with clamp hub; One Cameron Well Head Hydraulic Connector below stack; One Cameron Hydraulic Connector between annular preventers; One Cameron Hydraulic Connector and Ball Joint between top annular preventer and riser; One Cameron 30" Pin Connector and Ball Joint; Regan KFDS fixed diverter system with automatic Riser Support Ring; **Riser:** 1000' Cameron 21" OD Riser with 3½" integral choke and kill lines and 40' stroke telescoping joint; **Tensioning System:** Six Riser Tensioners, Rucker, capacity 80,000 pounds each, grooved for 1¾" wire; Four Guideline Tensioners, Rucker, capacity 16,000 pounds each, grooved for ¾" wire; Two Pod Line Tensioners, Rucker, capacity 16,000 pounds each, grooved for ¾" wire; **Sub Sea Control System:** Two Control Pods, Payne; Accumulator, Payne, 1,000 gallons, 3,000 psi unit; Control Panels, Payne; **Under-Water TV:** Baylor Model 17520 underwater TV; **Tubulars:** Drill Pipe, 20,000' of 5" OD 19.50 lb. grade G-105, internally coated, range 2 with 6¾" OD x 3½" ID with 5" X-hole connections, hardbanded; Heavy Wate Drill Pipe, Drilco, 30 joints of 5" with 5" X-Hole connections; Drill Collars, Drilco, 15 joints of 9½" OD x 3" ID x 30' zip and slip grooved spiral collars with 7⅝" API Reg connections. Drill Collars, Drilco, 24 joints of 8" OD x 2⅜" ID x 30' zip and slip grooved spiral collars with 6⅝" API Reg connections; Drill Collars, Drilco, 30 joints of 6½" OD x 2⅜" ID x 30' zip and slip grooved spiral collars with 4" IF connections; Core Barrel Christensen, type Marine, 90' x 3" barrel with handling tools; **Instrumentation:** Weight Indicator, Martin Decker, Type E; Deviation Indicators, Totco, 0-8° and 0-16°; Pit Level Indicator/Recorder, Totco Model Pitometer Unit No. L-4; Gain/Loss Indicator, Type 270350; Mud Flow Indicator, Totco, Model No. F; 6 Pen Drilling Recorder, Totco, Unit No. DR6WPT; 2 Pen Drilling Recorder, Totco, Model DR2W.

# China Economic Notes

## Briefly

- **Industrial output grows 12% in first nine months of 1977.**
- **Light Industrial Ministry shuffles production to supply increased consumer spending.**
- **Wages for 47% of Chinese workers raised on October 1; additional increases to come.**
- **1977 harvest mediocre, but mechanization program picks up.**
- **Traditional education returns to China; college entrance examinations will be given to 10 to 20 million.**

## GENERAL

**China's Industry Gears Up** As 1977 draws to an end, foreign analysts eye the Chinese economy to see if all the preparations and proposals that have appeared during the past year will fall in place for 1978 and the remaining years of the Fifth Five-Year Plan (1976-1980). Preliminary indications are that 1977 was a least a partial, if not full, success for Chinese planners. Industrial output grew 12% during the first nine months of the year over the same period of 1976; and, more importantly, in the key sectors, such as steel and transportation, official spokesmen were praising new production records and higher efficiency. According to Chinese sources, most of the individual ministerial production plans were completed as winter descended upon China. The most noticeable exception, however, was the Ministry of Light Industry. **On October 1, the wages for 47% of China's work force were raised, the first such increase in more than ten years.** Additionally, another 10% of China's workers are expected to get marginal salary increases before the end of the year. This increase in disposable income has kept Light Industrial planners busy. Sources high in the ministry revealed to the *China Business Review* that production of bicycles (current PRC

output is given as 6 million units per year with an average lifetime of 15-20 years), wristwatches, radios, and televisions will be increased to soak up the additional Chinese wages. The same official complained of difficulties in adapting Light Industrial production to changing consumer tastes in China; for instance, he noted production in the Fifth Five-Year Plan would feature more ballpoint pens, to replace the currently less popular fountain models. **Construction across China** Recent Chinese press accounts hailed 1977 as a good year for capital construction, pointing to a series of new power generating plants completed during the past twelve months plus 26 pairs of new coal shafts, three one-million-ton capacity chemical fertilizer plants—which, although not reported by the Chinese, were built by America's Pullman Kellogg—and “quite a few farm machinery plants.” In Peking alone, thirty-four buildings of between 10 and 15 stories have been completed, including three hotels and office buildings. This year in Peking, two million square meters of floor space will be added to residential housing in the city, providing new homes for 40,000 Chinese families or 200,000 individuals. **Population nears 1 billion** The need for additional housing and indeed goods and services of all kinds for the Chinese continues to grow. A visiting delegation of American family planners learned from their Chinese hosts that the population of China now exceeds 950,000,000. This report was the first official confirmation that the Chinese population is as high as Western demographers have been estimating. The American group was also told by the Chinese that the growth rate of China's population is now roughly 1% per year nationally. In large cities, such as Peking or Shanghai, the rate of increase was, reportedly, only between 0.6% and 0.8% per annum.

## AGRICULTURE

**Final months of 1977 see improved harvests** Marginal improvements in China's harvest in the second half of 1977 seem to have compensated for most of the disappointing crops earlier in the year. Miscellaneous grain, which had appeared to be in some trouble a few months ago, has enjoyed better yields than in 1976. While winter wheat harvested this year was not as

good as last year's, most of the early and late rice crops seemed to have improved over the previous year. In general, the total agricultural picture for 1977 was mediocre, but not catastrophic; grain output may increase slightly over last year's level. **Optimistic note** One of the most encouraging aspects of this year's agricultural effort in China has been the sowing of next year's winter wheat, which was completed by November 2 and appeared much better than the sowing in 1976. **Mechanization continues** A recurrent theme of 1977's press reports has been the need for continuing progress in agricultural mechanization. By the end of August, more than 65% of China's annual plan had been completed for most agricultural machines; and, by meeting its production targets, the farm machinery industry surpassed previous production and usage records. Over 100 new types of farm machines have reportedly been introduced in China this year, including new 100-hp and 80-hp four-wheeled tractors for north China. High pressure water guns for building dams and creating fields in mountains were developed; and a 4.5-meter axial flow pump, capable of lifting water 7 meters at a flow of 60 cubic meters per second, was produced. This pump can irrigate and drain 30,000 hectares.

## INFRASTRUCTURE

Reports of the completion of major construction projects have become more frequent in the Chinese press during recent months. **Power generation** is the most obvious case in point with three new stations and one new transmission line announced completed in October. An NCNA account on October 7 revealed that the Szechwan's Kungtsui hydroelectric power station was completed on the Tatu River and is now the largest station in southwest China with six water turbines onstream and one more to be completed. Another station, Kansu's Pichiang hydroelectric station on the Chiling River, was also reported finished with three sets of water turbines. Just two weeks later, Anhwei was reported to have completed its first 125,000-kw generator set at the Huaipai powerplant, and a second set was said to be installed in the near future. A 220-kilovolt high tension and transforming project was reported opera-



tional in Hupeh, connecting the Tanchiang and Huanglungtan hydroelectric power stations to Wuhan, Huangshih, and other cities. The project includes a 400-kilometer line, a large compensation station, and a series of transforming stations. **Railroad lines** have also been completed this fall. On September 24, the NCNA praised China's second electrified railway line, which forms a 356-kilometer link between Yangpinkuan and Ankang in southern Shensi. The line crosses 27 rivers and has 312 bridges and 146 tunnels. Also completed was a 149-kilometer line, connecting Yentungshan and Paishanchen along the Sung-hua river in Kirin. **The construction of modern airports** is also underway in the Chinese cities of Peking, Tientsin, Hofei, Urumchi, and Canton. The new Peking air complex includes a new 3,200-meter runway with a precision landing system. The old Peking runway is now scheduled to be expanded to 3,800 meters to be used for larger airplanes. Also included in the new capital airport will be a four-story terminal building with the normal aviation facilities as well as restaurants, bars, movies, and special lounges for visiting dignitaries. According to the reports, the airports of Tientsin, Hofei, and Harbin will all eventually have 3,200-meter runways. **New highway system planned** The Ministry of Communications plans to build a "speedway" network throughout China, sources in Peking report. This new development program, which seeks to relieve China's railroad system, will make use of Western experience and hardware, experts speculate.

## CONFERENCES

**The series continues** The string of industrial conferences in China that began late in 1976 with the Second Learn From Tachai Agricultural Conference extended into the final months of 1977. **The most recent conference was on electronics**, held by the Fourth Ministry of Machine Building. During the session, which started on November 7, some 2,500 delegates gathered in Peking to hear Vice Premier Yu Chiu-li and other leaders encourage the Chinese electronics industry to increase production as "an important part of the national defense and the national economy." **Two scientific conferences** This fall also saw the convening of two major scientific con-

ferences in Peking. The first, organized by the Chinese Scientific and Technical Association, met to make preparations for the national conference on science scheduled for next spring. Then, a thirty-day national conference for planning natural science was held in Peking, closing on October 31. As a result of that meeting, scientists involved in mathematics, physics, chemistry, astronomy, earth sciences, and biology proposed that the Chinese Academy of Sciences and institutions of higher learning should establish an initial research network for the basic sciences within three to five years, and flesh it out in eight years into a complete network covering a whole range of disciplines with modern laboratories. **Conferees also discuss construction, mapmaking, and banking** The People's Liberation Army Capital Construction Engineering Corp closed a conference that brought 1,000 leading cadres to Peking on November 7 after exchanging experiences in capital construction. This PLA meeting followed a State Building Materials Industrial Conference on Learning from Taching in Industry, which was held in Harbin from August 25 to September 5 and drew 2,000 delegates from across China. On September 21, a National Surveying and Cartography Conference opened in Peking to outline future programs for surveying China's provinces, autonomous regions, and

municipalities. The People's Bank of China also held a conference early this fall to examine the role of banking in the national economy, according to a September 26 NCNA account.

## EDUCATION

**Back to Basics** After more than ten years of turmoil, China's educators have officially returned to a more traditional academic approach, featuring college entrance examinations, four-year undergraduate degree programs, and postgraduate work. The title of "professor" now has been restored in China, at least in some institutions of higher learning. Apparently, the revolutionary education policies forwarded by the now-discredited radical faction have been categorically rejected by the new Chinese leadership. A recent test given to college graduates in Shanghai revealed that less than a third of those tested could pass high school equivalency exams in mathematics, physics, or chemistry. Many of those tested, holding scientific and technical positions, failed the exams in their own area of expertise. **College entrance examinations** To combat the inadequacies in the current Chinese educational system, the Ministry of Education held a conference in early October to review college admission criteria. Following the conference, the Chinese press announced that a national college entrance examination would be offered

**CHINESE GRAIN OUTPUT**  
Distribution by Crop Type

Category (%)	million tons*
Total (100%)	285
Early Harvest (40%) (by August 8)	114
Early Rice (18%)	51
Winter Wheat (12.5%)	36
Barley, Pulses, Early Corn (7%)	20
Spring Wheat (2%)	6
Late Harvest (60%) (after August 8)	171
Intermediate and Late Rice (27%)	77
Miscellaneous Grains (22%)	63
Potatoes (11%)	31

\* In 1976; subtotals may not equal total because of rounding.  
Source: U.S. Department of Agriculture.

in the near future for students interested in entering Chinese universities in the fall of 1978. Foreign observers estimate that between 10 and 20 million Chinese hopefuls will participate in the examination, of which some 100-200,000 will be chosen to matriculate in China's 380 institutes of higher learning. Another precedent-setting feature of the new college enrollment policy is that high school seniors will now be able to proceed directly to college instead of spending several years in the Chinese countryside. This new group of Chinese freshmen will make up between 20% and 30% of the incoming class, according to NCNA accounts. In justifying this radical departure from current PRC education policies, the Chinese media pointed out "these students will maintain continuity in their studies. These students are younger in age, have relatively stronger abilities to absorb knowledge, have relatively clearer thinking, and are more receptive in studying basic theories of natural science. . ."

**Graduate Degrees** Another departure from the past has been announced in graduate education: The Chinese Academy of Sciences has directed the China Science and Technology University to establish a graduate school. Within the next three years, according to Chinese sources, the new graduate school will enroll 1,000 postgraduate students into a three-year program that will include the independent completion of a scientific research project of "a certain work level," presumably similar to Western dissertation requirements. Admission to the new graduate school will be open to qualified university graduates, exceptionally promising undergraduates, and members of the non-academic community with demonstrable scientific potential.

**Scientific Committees** Beyond instruction, the Chinese Academy of Sciences has also established groups of academic committees instructed to propose areas for future research and evaluate research currently underway. These committees will, reportedly, grade the research projects submitted by Chinese graduate students.

**Audio-visual** The learning of foreign languages is a key feature of the new Chinese educational policy since much of the latest technical material has not been translated into Chinese. The prestigious Peking Foreign Language Institute announced this fall

that it has designed and trial-produced slide projectors for language students. In other academic news, the Ministry of Education announced a national conference in November for primary and middle school teachers. The conference introduced new textbooks and teaching techniques to China's 10 million schoolteachers.

**Retooling interpreters** The Chinese are in the process of retraining parts of their translation personnel, according to

well-placed Chinese sources. Many interpreters, schooled in Russian during the 1950's, have been underworked for the past seventeen years and are now being sent back to school to study more useful tongues. In addition, some younger interpreters, who slipped through China's foreign language institutes in the liberal 1960's and early 1970's, are being elected by their co-workers to return to school for remedial work.

完

#### RMB:DOLLAR RATES AS OF NOVEMBER 1977

Date		RMB/US\$	US\$/RMB	RMB/US\$ % Change
August 9	Bid	1.8531	53.9636	+0.40
	Offer	1.8439	54.2329	
	Median	1.8485	54.0979	
October 4	Bid	1.8457	54.1800	-0.40
	Offer	1.8365	54.4514	
	Median	1.8411	54.3154	
October 15	Bid	1.8365	54.4514	-0.50
	Offer	1.8273	54.7256	
	Median	1.8319	54.5881	
October 18	Bid	1.8273	54.7256	-0.50
	Offer	1.8181	55.0025	
	Median	1.8227	54.8637	
November 1	Bid	1.8217	54.8938	-0.30
	Offer	1.8127	55.1663	
	Median	1.8172	55.0297	
November 2	Bid	1.8144	55.1146	-0.40
	Offer	1.8054	55.3894	
	Median	1.8099	55.2517	
November 9	Bid	1.8089	55.2822	-0.30
	Offer	1.7999	55.5586	
	Median	1.8044	55.4201	
November 10	Bid	1.8179	55.0085	+0.50
	Offer	1.8089	55.2822	
	Median	1.8134	55.1450	
November 19	Bid	1.8088	55.2853	-0.50
	Offer	1.7998	55.5617	
	Median	1.8043	55.4231	
November 23	Bid	1.7998	55.5617	-0.50
	Offer	1.7908	55.8410	
	Median	1.7953	55.7001	
November 26	Bid	1.7908	55.8410	-0.50
	Offer	1.7818	56.1230	
	Median	1.7863	55.9810	

Source: Standard Chartered Bank, Ltd.



# Importer's Notes

## **Briefly:**

- "Export zones for China"? Li Chiang outlines a new export program featuring emphasis on quality, continuity, reliability, and feasibility, as well as "export zones."
- Canton Fair: Up in the White Cloud Hotel, the Fall Fair was "a whole new world."
- Chinese exports to US spurt in late '77.
- Canadian Corporation with exhibition exclusive holds arts and crafts show in Los Angeles; more planned.
- Chinese and Russians clash over US vodka sales.
- President vetoes rabbit meat inspection bill.

## **GENERAL**

The final months of 1977 saw some improvements for importers from China with a promise for much better times ahead. US imports of Chinese products through October were \$174 million, showing a slight increase in PRC delivery of goods compared with the first half of the year. Reports from the Canton Fair were mixed, but certain commodities, such as textiles, were bought in large quantities by American buyers. The most encouraging note of the final days of 1977 came from Li Chiang, Minister of Foreign Trade, in a speech released just prior to the opening of the Canton Fair, calling for greater emphasis on the production and a greater flexibility in the distribution of China's exports. Many traders reportedly felt the effects of this new policy at the semi-annual Kwangchow event, where good humor, if not good prices, seemed widespread. It was, according to one fair participant, "a whole new world."

## **BANK OF CHINA UPS FORWARD RATES, MAKES RMB FUTURES EASIER**

New, more expensive forward premiums for RMB against the dollar were issued by the Bank of China on November 21, 1977, following a 3% revaluation of the RMB against the

greenback since August. The new forward rates are: 1 month, 0.9%; 2—1.7; 3—2.5; 4—3.0; 5—3.5; 6—4.0. These rates are based on the spot rates prevailing at the time of purchase and may be subject to additional points tacked on by US-based third country correspondent banks of the BOC. According to one source, the BOC is now making it easier to obtain forward money; and more US companies, anxious to protect themselves as the dollar devalues against major currencies, are denominating contracts in RMB and buying ahead. The relaxation by the BOC, as of the Fall Fair, means that the BOC will grant futures based on information about the contract date, contract number, products bought and their value, and name of Chinese exporter, confirming a purchase, rather than requiring an L/C to be opened as previously.

## **EXPORT PROCESSING "ZONES" FEATURE IN CHINA'S NEW EXPORT PROGRAM**

Elaborating on themes of China's summer foreign trade conference, Li Chiang, China's Minister of Foreign Trade, has recently issued good news for foreign importers of Chinese products including proposals for "reasonable prices," export processing "zones" provision of reliable supplies of high quality goods, rationalized export management including joint operations by different FTC departments, and adherence to contract deadlines, quality and quantities. Mr. Li's call for increased flexibility in China's trading methods hints that trading with the PRC may be a little easier in future. In an article in the October 8, 1977 *Red Flag*, Li made the following points: • **"Exports are necessary and vital to finance imports.** On the basis of international market requirements, (trade departments) should outline export categories, assist production departments and rural communes and teams to organize and promote production and handle procurement well. They should acquaint the masses with certain processing techniques, introduce fine seeds and improve varieties. They should bring in equipment for key projects and explain samples and their production techniques, giving necessary economic assistance in accordance with the stipulations set by the state." • **Stable supplies.** Li's article placed particular emphasis on

providing foreign markets with a steady supply of high quality goods. Hong Kong was mentioned as a buyer that had received an unsatisfactory flow of goods in the past. The piece asked, "Why can't we let plants with better facilities produce export items?" and then explained, "Practice has shown that doing so will facilitate meeting the requirements of the international market, promoting the sales of commodities of high quality and well-known brands, and stabilizing the supply of export items on a regular basis according to fixed schedules and established norms of quality and quantity."

## • **Meeting overseas needs will aid domestic production techniques.**

Li commented that meeting international requirements will aid domestic production by raising the level of production techniques and strengthening the economy in general. • **Export "zones" and rational management.**

A recurring theme of the article was the emphasis on organizing efficient export production. Officials were urged to "make a success of setting up bases for producing export goods in selected areas. In this regard, the basis for this purpose may take different forms, such as joint operations by several departments, division of work on the basis of product categories, or separate operations under a zoning system." • **Meeting contract performance-standards.** In what seemed to be a plea to his ministry to work within international standards for trade contract performance, Li called for reasonable performance in signing and carrying out foreign trade. "Be it in exporting or importing, any unequal or unreasonable conditions cannot be attached. Of course, we never impose unequal conditions or make unreasonable requests of others. At the same time, the import and export commodities must meet each other's needs. Reasonable prices must be set by mutual consent. We oppose the raising or holding down of prices by taking advantage of monopoly positions. We should mutually adhere to contracts, act in good faith and meet the deadline, quality and quantity set down in contracts." • **Flexibility stressed.** To the relief of many long time China traders around the world, Li Chiang closed his piece with a call for flexibility in China's foreign trade establishment. "We must be good at using different products, times and markets

**They told us we were  
making vodka  
for the good of the party!**



## **Great Wall Chinese Vodka** THE MOST EXPENSIVE VODKA IN THE WORLD "because we believe it's the best!"

For the name of nearest outlet:  
New China Liquor and Spirits Corp. 1375 Route # 23, Butler, N.J. 07405 (212) 759-9156  
Great Wall Vodka is distilled from grain, eighty proof. Produced & Bottled in Tangdao, Shandong Province  
The People's Republic of China. Sole U.S. Importer: New China Liquor and Spirits Corp. Butler, N.J. 07405

in importing and exporting and flexibly use all trading methods under various complicated conditions. Doing business with flexibility is not only the task of the people engaged in foreign affairs but a task shared by various quarters concerned with foreign trade."

### **THE SINO-SOVIET VODKA DISPUTE**

In addition to other more substantial conflicts, China and Russia are currently embroiled in a new, highly volatile area of contention. Faced with Soviet hegemony in the international vodka market, Chinese foreign trade officials three years ago selected America's New China Liquor & Spirits Corporation as their agent in unleashing a new secret weapon: Great Wall Vodka. Marshalling his forces, the enterprising president of the American importing company Charles Abrams announced a major advertising drive for the Chinese liquor early this fall. In an effort to penetrate the "super premium" market, the marketing campaign heralded Great Wall Vodka as "the most expensive vodka in the world." It was, the advertisements also

noted, the world's best. Not to be outdone by its southern neighbor, Moscow's ideologues swiftly relayed a message through PepsiCo, the distributor of its premier vodka, Stolichnaya, to challenge the Chinese claims and to clarify to the American consumer that, indeed, the world's most expensive vodka was none other than Russian. Hardly unprepared for such retaliation, Peking wasted no time countering the Russian charges: As had happened so often in the past, the Chinese side charged, the Russian product was impure. Certain additives in Russia's more expensive brand of Stolichnaya, allegedly, disqualified it from US federal requirements of vodka. Adding bite to its bark, the New China Liquor & Spirits Corporation challenged the American importer, suing for a hefty \$5 million as damages resulting from the company's false advertisements. Faced with civil action, the Russians' agent chose to beat a tactical retreat, and in mid-November, 1977, a settlement was signed in the New York Supreme Court, allocating the title of "the world's most expensive vodka" to Great Wall and China.

### **CHINESE ARTS AND CRAFTS EXHIBITION HELD IN LOS ANGELES**

The first three weeks of November saw the first major show of Chinese arts and crafts to be displayed in the United States by a non-Chinese producer. Sponsored by Procraft Corp., a US subsidiary of Sinacorp International, Inc., the California exhibition was the first of what the company hopes to be a continuing series of exhibitions throughout the US, including shows in Chicago, Dallas, New York, and perhaps Palm Beach. The Toronto-based Sinacorp currently holds a written contract for exhibition rights in North America with the Peking Jewelry Branch of Light Industry and a similar verbal understanding with Peking Arts and Crafts. Owing to problems of the claims/assets question, Chinese FTC's cannot legally bring their own products into the United States; so assigning the exclusive exhibition rights to the Canadian firm serves to bypass current technical difficulties for the Chinese. Sinacorp itself claims to be one of Light Industry's largest arts and crafts and jewelry customers, buying between \$1 and \$1.5 million worth of Chinese products in 1977. Before coming to LA

to display Chinese goods in the 1800-square-foot International Room of the Pacific Design Center, the company held an opening in Toronto called the "Peking Collection," where antiques, contemporary artwork, arts, porcelain, furniture, and jewelry were shown. Sinacorp plans to hold exhibitions and distribute goods in the US through its subsidiary, Procraft, Inc. To facilitate re-export to the US, Sinacorp has set up a bonded warehouse and an exhibition showroom in Toronto from which the goods will be shipped, duty-free, to Canada for shipment into the US. Such goods would incur the same US tariffs as products directly imported from the PRC. Sinacorp calls itself an "official agency dealing with the PRC, recognized by the Canadian government." A Liaison Office official from Washington, DC, who was in Los Angeles on other business, paid a courtesy call on the exhibition.

### **HEAVY AS A FEATHER**

**Another Name for Down** The price of Chinese feathers and down rose dramatically during the early weeks of the Canton Fair, according to one long-time American importer. Just before the Fair opened, the potential buyer was cabled that the prices were going up 26%. Then, once in China, the company representative learned of an additional 17% hike, followed closely thereafter by a third 10% increase. Confused by a whopping total increase of 53%, the buyer quit the semi-annual Chinese trade event, convinced that the dramatic increases were part of a Chinese move to shift from feather and down exports to the sale of finished feather and down products.  
**Feather and Down Mini-Fair in 1978** Reports out of China indicate that

### **TOURISM PICKS UP**

**More Americans to China in 1978** Authoritative sources report that 3,000-3,500 more Americans may travel to China as tourists in 1978 to take the well-travelled Peking, Shanghai, Hangchow, Kwangchow route at the rate of about 100 a week. The tours will apparently be arranged via the US-China People's Friendship Association, and will enter the PRC on scheduled carriers.



## KEY INGREDIENTS FOR A SUCCESSFUL DELEGATION TO CHINA

The delegation of the Importers' Steering Committee had a successful trip to the PRC before the Spring Fair. George Krieger of ACLI International, leader of the group and Chairman of the Importers' Steering Committee, spoke at the National Council's Annual Meeting and stressed the following points as essential to the success of a delegation to China.

- Extensive preparation and intimate knowledge of each subject matter is paramount.
- The number of subjects to be covered should be limited to accommodate the time factor and to permit thorough preparation.
- In order to achieve an "exchange of ideas" with the Chinese, delegates must provide their counterparts in China with a thorough outline of subjects to be discussed, thus providing them the opportunity to prepare response.
- It is not necessary to revert to historical basics: the Chinese have learned a great deal about the US market.
- A delegation to China must be considered a purely business affair with tourism minimized. This thought should be conveyed to the appropriate counterparts.
- Each member of a delegation must understand that one is wearing a "delegate hat" and is, therefore, not in a position to trade for the benefit of one's firm during the visit. Considerable personal sacrifice should be anticipated in terms of preparation time.
- It is beneficial for the delegation to learn as much as possible about China prior to and during the trip.
- Cooperation with the PRC Liaison Office in Washington, as well as with the National Council, enhances the chances for the success of any delegation.

Native Produce may have a chance to pacify disgruntled feather and down buyers early next year. Canton rumors suggest a Feather and Down Mini-Fair will be held in Shanghai from January 10 to 20, 1978.

## PRESIDENT RESCUES RABBIT TRADE

**Carter Vetoes Rabbit Meat Inspection** In what an Administration spokesman labeled an effort to avoid "straining relations with the People's Republic of China," President Carter invoked his veto privilege for only the second time to strike down a bill which would have required stricter inspection requirements for rabbit meat. Submitted by Rep. Keith G. Sebelius (R-KS) and Sen. Robert Dole (R-KS), the proposed legislation would have hampered the import of Chinese frozen rabbit meat into the United States, which totaled more than \$130,000 worth in the first eight months of 1977.

## FIREWORKS IMPORTS INCREASE IN 1977

Despite a Consumer Product Safety Commission ruling restricting fireworks brought into the United States from abroad, in the first nine months of 1977, \$7,044,800 worth of Chinese sparklers and noisemakers entered US ports, compared with \$6,565,282 in all of 1976. The new CPSC regulations, effective December, 1976, prohibited the sale of fireworks with charges greater than 50 milligrams, as well as certain fireworks with dangerous chemicals, fuses, bases, or devices; but China's export products were apparently sufficiently temperate to avoid exclusion under the new ruling. **Chinese canned goods in short supply** While many new potential importers of foodstuffs have become interested in importing Chinese products now that several Chinese factories have registered their low-acid foods production with the FDA, supplies of these products have temporarily run dry in China. PRC officials indicate that it may not be until the next Canton Fair in the spring of 1978 that the situation improves significantly.

## BRISTLES DELEGATION VISITS THE US

A bristles delegation from the China National Native Products and Animal By-Products Corporation arrived in Washington, DC, on November 23 for

## NEW FTC

The Arts & Crafts Branch of LIGHTINDUSTRY becomes a new, distinct FTC as of 1/1/78. Its address is China National Arts & Crafts Import and Export Corporation, 82 Tung An Men Street, Peking, People's Republic of China; cable address: ARTCHINA PEKING.

a month-long market survey tour of the United States. Under the sponsorship of the National Council, the three-member delegation traveled to New York, Philadelphia, and Wooster, Ohio. The delegation, headed by Ma Chieh, included members Chin Mei-sheng and Li Kung-chin and was accompanied by Yang Hsueh-chen of the Liaison Office of the People's Republic of China.

## NATIONAL COUNCIL PREPARES FOR LIGHT INDUSTRIAL IMPORTERS DELEGATION TO CHINA

In preparation for a delegation of American importers of Chinese Light Industrial products to go to China in April, 1978, the National Council has circulated a questionnaire to American importers covering problems and practices in buying light industrial products from China. The survey requests importers' opinions on every facet of ordering, financing, shipping, and marketing Chinese products. The National Council's Light Industrial Products and Handicrafts Delegation will present a report based in part on responses to the survey to the light industry corporation in China next year. The report will also include information on the US market, US government regulations, and other topics of interest to all US importers of Chinese home furnishings, accessories, and general merchandise. Specific product areas to be discussed include floor coverings, table matting, glassware, basketware, jewelry, toys, stationery, sporting goods, shoes, rubber footwear, and handicrafts. All American importers of related Chinese products are invited to contribute to the report by completing the questionnaire; responses will be compiled through the Council's office in Washington, starting in December, 1977. For more information or copies of the questionnaire, please contact the Council. 完

# China International Notes

## **Briefly:**

- **China steadily builds trade surplus.**
- **Germany sells China \$200-240 million worth of steel mill equipment, open pit coal mining system.**
- **Foreign military equipment and technology now interesting Peking.**
- **Sino-Japanese and Sino-EEC agreements set, with oil quotas; talks stall on interest rates.**
- **Buying activities focus on petroleum equipment.**
- **TV sets and textbooks: rising consumer demand in China?**
- **Peking awash with high ranking delegations.**

## **CHINA'S WORLD TRADE— STEADILY INTO THE BLACK**

China's world trade should reach about \$13.5 billion in 1977, up from \$13.26 billion in 1976, according to newly revised US government figures. The PRC's foreign exchange standing has been improving steadily, with a hard currency surplus of \$1.245 billion in 1976 and one of about \$1 billion this year. China's exports continue to rise steadily.

**SINO-JAPANESE TRADE  
AGREEMENT SET, BUT FLEXIBLE  
INTEREST RATE STALLS ACCORD**  
**Japanese Agreement Ready** In talks on September 26 and 29 between leaders of the Japanese coordinating committee for the long-term trade agreement and PRC Vice Minister for Foreign Trade Liu Hsi-wen, the starting date for the pact was set as January 1, 1978. The agreement will be in force for eight years through the end of China's Sixth Five-Year Plan in 1985 and will bring total Chinese exports in 1978-82 to a value of \$10 billion. A figure of one million tons was agreed upon for projected exports of steaming coal under the agreement, although terms for coking coal exports have not yet been set. The level of China's oil exports to Japan will rise from 7 mil-

lion metric tons in 1978 to 15.6 million mt in 1982. Discussions also cleared the way for higher exports of Japanese steel in the coming months. Japanese oil industry interests have consistently blocked the long-term trade treaty since increased imports of Chinese heavy crude oil will call for heavy capital investment to build special refinery facilities and extra shipment costs due to the lack of adequate super-tanker facilities in Chinese ports. In addition, the Japanese had been told by Liu that China's domestic requirements for energy supplies would put a sharp limit on oil exports to Japan. The oil agreement, as it now stands, provides for a five-year period in which import quotas within the range set by the agreement will be determined mutually on an annual basis. The agreement on steaming coal exports was unexpected because the trade is relatively new and an energy source only newly being explored by Japanese industry. Most of the Chinese coal is destined for a single thermal power plant now under construction by the semi-governmental Electric Power Development Corporation. According to Mr. Inayama, the chief Japanese negotiator, the Chinese have agreed to set up their own coordinating committee and make up an item-by-item shopping list of Japanese plants and equipment—expected to include mainly oil drilling equipment, mining machinery, harbor construction equipment, and steel and metallurgical equipment. The Chinese proposed that all matters that remained open at the time of agreement might be left open and handled as such. **Meanwhile, China's attention has shifted to negotiating for optimum terms on financing of imports.** On October 21 the Japanese government announced that it would resume financing exports to China through Export-Import Bank loans, suspended since December, 1976. Loans of "several thousand" million yen will be available, but the Chinese are hanging fire on the disposition of interest rates for the loans. Japan's Exim five-year rate for developing countries is 7.5%, but China wants 7% and may refuse to commit itself to the long-term trade agreement until it gets 7%. China is taking the position that, in lieu of guaranteed earnings from coal and oil sales as proposed originally, low interest rates on suppliers'

credits are crucial. **Meanwhile, with China's EEC agreement—Peking steals a march on East Europe** The Council of Ministers of the EEC (European Economic Community) approved on November 1 a resolution submitted by the Commission to open formal negotiations on a five-year Sino-EEC trade agreement. The East European trading bloc, which is also negotiating an agreement with the EEC, was thereby upstaged. Preferential tariff treatment accorded by the nine member states of the EEC to each other will also be given to the PRC; the relaxation of individual import quotas and tariffs on Chinese imports will be left, however, to be determined by a joint commission meeting regularly to review problems and progress of trade relations under the agreement. A January date has been given as a tentative deadline for conclusion of negotiations. China hopes to gain an improved market for its mineral products, particularly manganese and tungsten.

## **PEKING RECONNOITERS FOR WEAPONS**

**Call to arms** Ex-Defense Secretary James Schlesinger's trip to China in mid-1976 was a preamble to the attention businessmen in military-related fields have since gotten from the Chinese. Ever since 12 French missile experts visited the PRC in October, 1976, a procession of strategically minded missions have entered or left China giving rise to speculation about China's new purchasing plans. Interchanges between Chinese and foreign atomic physicists—Australian, French, German, and American—have since taken place. Leaders of China's air force have visited international air shows in Britain and France. Chinese technical missions have visited European and British aerospace facilities and manufacturers. Specific hardware has been of interest to the Chinese: STOL aircraft from the UK, heavy tanks from Mitsubishi Heavy Industries, French ground-to-ground missiles, nuclear technology and "advanced military technology," Swedish underground technology for military purposes (such as factories, possibly missile silos, and submarine pens), possibly VFW-Fokkers manufactured under license by Romania, and air defense equipment from Switzerland. On Oc-



tober 8 open season was declared on military contracts by Vice Premier Teng Hsiao-ping, who is also chief of staff of the PLA. With a group of six retired Japanese Self-Defense Force officers, Teng said that China was planning modernization of the defense industry through purchases of new weapons and technology from abroad. Military delegations have also been visiting Peking hot on each other's heels. The first to arrive in Peking on September 12 was a West German mission led by retired General Johannes Steinhoff, former inspector general of Luftwaffe. Steinhoff was followed shortly by Manfred Woerner, chairman of the Bundestag Defense Committee and defense expert of the CDU/CSU, arriving on September 21, and Woerner was followed by West German Minister for Foreign Affairs Hans-Dietrich Genscher and his party on October 12. It was also made known that CSU Deputy Friedrich Zimmerman, head of the CDU/CSU Bundestag group of defense experts, would visit China later in the year. Steinhoff and Woerner were both given rare tours of China's defense plant, including missile boats, comparable to that granted Schlesinger last year. Teng Hsiao-ping met with Genscher and Woerner to lay before them plans and an offer to join China's new policy of containment toward Moscow, in which China is seeking the cooperation of West Europe, Japan, and even the United States in an "antihegemonial unity front" against the USSR. Following the West German delegations came two British missions, one from the British Royal College of Defense arriving on October 5 and a delegation of British industrialists organized by "Business Perspectives" arriving November 1, including no military brass but with representatives of the nationalized company, British Aerospace, which has been responsible for major sales of military aircraft to the PRC before. General Stig Syn-Nergren, Supreme Commander of the Swedish armed forces, was in China from October 14 to 27, and the delegation of retired Japanese army men, who had the first meeting between Japanese military and Teng Hsiao-ping since the latter's rehabilitation, arrived in China in the first week of October. Third-world military delegations to China included a Sudanese group in September and the Philip-

pine Chief of Staff, Remeo Espino, in late September. Traffic going the other way in the same period included an air defense group to Switzerland, a parachuting group to France, and a military delegation to Tunisia. In mid-September an 18-man delegation led by Deputy Chief of Staff of the People's Liberation Army (PLA) Yang Chengwu, was sent on a two-week tour, from September 15 to 28, of France and Romania. In France, Yang discussed French aid in building up China's defense capacity in talks with Premier Raymond Barre and Defense Minister Yvon Bourges. On November 5, Reuters carried a story that Vice Premier Wang Chen had told the UK "Business Perspectives" group, "We intend to acquire the Harrier," referring to the Hawker Harrier jump-jet tactical support fighter. The next week, on November 14, the Japanese news service, Kyodo, carried news that China was preparing for production of a new fighter aircraft, modeled on the Soviet Mig-23 and powered by "an improved version" of the British Rolls-Royce Spey engine.

#### BUYING REPORTS

Chiyoda Chemical Engineering and Construction Co. and Mitsui & Co. contracted in November to supply China with an **LNG plant** worth about \$19.6 million, originally negotiated for in 1975. The 4 million cubic meter-per-day processing plant, slated to start up in 1980, uses Royal Dutch Shell gas conversion technology. Chiyoda will design and build the separation, dewatering, and desulfurization facilities. **Petroleum equipment** MACHIMPEX in October hired the services of a Japanese firm, Mitsubishi Heavy Industries, Ltd., to repair an offshore jack-up rig at a cost of about ¥800 million (\$3,013,750). The repairs are expected to start in early December and continue through March, 1978. MHI has also received an order for three large centrifugal compressors, designed for circulated gas, from MACHIMPEX, according to a 9/1/77 report. The compressors, probably destined for installation in petrochemical plants, will have a drive power of 1,560 kilowatts and will be capable of handling 100,000 cubic meters of circulated gas per hour. Payment for the order, worth about ¥200 million (\$753,437), will be settled on a yen-denominated FOB

basis. Delivery is scheduled for spring of 1978. Kyodo on 8/18/77 reported that MHI and three other firms had won a contract for the supply of 10 heavy hydrogen gas compressors worth about ¥1 billion (\$3,767,187). The largest order, for seven units, went to Ishikawajima-Harima Heavy Industries Co.; MHI, Hitachi Ltd., and Mitsui Engineering & Shipbuilding Co. are to supply one unit each for delivery by June, 1978. Designed to withstand temperatures from 40° to -30° C, the compressors will have capacities of 37,000 to 50,000 cubic meters per hour and will probably be assigned by MACHIMPEX to small-scale oil refining plants now under construction. MACHIMPEX will pay for the deals in cash on an FOB basis. A \$715,000 contract for the sale of 12 automated filter presses to be used in dewaxing fuel oil by Kurita Machinery Co. of Osaka to the PRC was reported in September. Among European firms, deals on **oil supply vessels** have been concluded with Norwegian suppliers, and several French and West German companies have been responsible for sales of oil prospecting and transportation equipment. The Norwegian vessels, *Rig Pilot* (launched in 1972) and *Rig Sailor* (1973), both sold by Sandoy Supply of Brattvag, were due to arrive in Chinese ports in late and mid-October. The sales concluded five months of negotiations. A Singapore shipyard was earlier (10/77) reported to have sold five supply vessels to China. The 150-foot craft with 4,000-bhp engines were scheduled for delivery late this year. Over \$9 million of **petroleum equipment sales** were made by French companies in the first six months of 1977, including a \$2.3 million sale of **drilling pipes** by Marep-France in early 1977, a May contract worth \$1.7 million by C.G.G. for cables for prospecting ships, and a \$5 million sale in June for 11 machines for threading drilling pipes by Cri-Dan. The West German firm, Mercedes-Benz, also sold \$3 million worth of transportation equipment in June, 1977, consisting of 115 trucks for carrying oil pipes. **Machinery and plant equipment** Mitsubishi Heavy Industries won an order in August for three MAF machines, bringing the total number of such machines MHI has sold to China this year to five. Two of the machines, milling, boring, and



combined machines for large-scale machine tool operations, will go to MACHIMPEX and one to TECHIMPORT. In addition, TECHIMPORT signed an order for a gear shaper on the same contract, bringing the value of the transactions to \$1.6 million in all. Delivery is scheduled for January and February, 1978. In **construction equipment sales**, the Japanese firm Honda Tekko (Iron Works) has been the subject of a Chinese inquiry on its large-capacity de-airing extruder, Type DE650. The extruder, which sells for ¥100 million per unit (\$376,718), is used for mixing cement and asbestos and extruding the mixture to manufacture soundproof wall materials for housing. Report of talks came in mid-August. Yaesu Trading reported in early September an order for about ¥100 million (\$376,718) of used auto parts. **Japanese sales of harbor construction and development equipment** have strengthened with the conclusion of a ¥230 million (\$852,000) order for four jibcranes from Ishikawajima-Harima Heavy Industries. Ordered by MACHIMPEX for delivery by the end of January, 1978, the cranes, with a maximum lifting capacity of 20 tons, will be installed at port facilities in Tientsin. In October, it was reported that a Hong Kong ship-repairing company had sold China a **large floating drydock**, built by Ishikawajima-Harima Heavy Industries at a cost of \$14 million. The drydock, now installed at Whampoa Dockyard near Canton, handles vessels up to 30,000 deadweight tons. Negotiations were underway in October for purchase of a second drydock from the company. British firms have obtained orders for **measuring and detection equipment** in the past few months: Rank Taylor for £250,000 worth of measuring instruments (\$436,604), reported in early October; Coventry Gauge Ltd. (TI Group) for **advanced electronic and other precision gauging equipment**, valued at £400,000 (\$698,567) in August; and A. M. Lock & Co. an order for **test and detection equipment**. The Lock sale was for an eddy-current nondestructive flaw-detection unit used for locating and marking the position of flaws in ferrous and non-ferrous rods, bars, tubes, and wires. Following the mid-October visit of West German Foreign Minister Hans-Dietrich

Genscher in China, it was announced that an agreement would be concluded by the end of the year on export of equipment worth DM 300 million (\$130,039,010) for a **strip coal mine** in the Inner Mongolia Autonomous Region. On a lesser scale, China signed an agreement with Iran on 8/21/77 for the purchase of \$600,000 worth of **ball bearings** and other industrial items, according to Tehran domestic service. **Iron and Steel** A delegation to China by five major Japanese steel companies in late August returned on September 4 with news that China would buy nearly as much rolled steel from Japanese suppliers in the second half of fiscal 1977 (April, 1977-March, 1978) as the 2.2 million metric tons ordered for the first half of the fiscal year. Yasushi Hayashi, president of Sanyo Special Steel Co., reported that China wants an annual quota system for specialty steel exports to China, with prices and volumes to be set in bi-annual trade talks along the lines of the "joint negotiation and contract" formula used for trade in rolled steel, fertilizers, and silk. On 9/27/77 the *Japan Economic Journal* reported a further sale of 10,000 tons of light rails to China by Japan Iron-Sand Steel Co. and Daitetsu Kogyo Co. The rails will be used chiefly for development of Chinese coal mines. British visitors to China announced (10/21/77) an order for £3 million (\$5,239,259) of specialty steel billets, bars, and rods from British Steel Corporation, whose chairman, Sir Charles Villiers, visited Peking in October with a group organized by the Sino-British Trade Council. The first steel for the order, which calls for the forging of quality special bars to medium-carbon and low-alloy specifications, was rolled in November. The order will be shipped in early 1978. West German Foreign Minister Hans-Dietrich Genscher reached agreement on October 14 during his visit to China for the export of 250,000 tons of **steel tube and spare parts for a steel rolling mill** totaling DM260 million (\$112,700,470). The Steel Authority of India concluded \$2.2 million of deals, mainly for export of 20,000 metric tons of pig iron, in its first mission to the Canton Trade Fair in fifteen years. The *Asian Wall Street Journal* (10/24/77), in a report from Rio de Janeiro, Brazil, said that officials of the Companhia Vale do Rio

Doce were optimistic about chances for rapid conclusion of a long-term contract for supply of high-grade iron ore. Brazilians have proposed sales of 4 million metric tons of **iron ore** over a period of eight years, with shipments to begin in February, 1978, if the negotiations pan out. **Raw Materials** The brightest spot in the China metals market in recent months were sales of aluminum ingot by suppliers in Japan, Bahrain, and Iceland. Six Japanese firms have contracts to supply 28,000 metric tons of **aluminum ingot** for delivery in August through October, according to the *Reuter East-West Trade News* (7/9/77). The companies are Nippon Light Metal Industry, with the largest contract for 10,000 mt, at prices reportedly just under \$1,100 per ton CIF; Sumitomo Aluminum (6,000 mt); Showa Denko Kaisha (5,000 mt); Mitsubishi Light Metal (5,000 mt); and Mitsui Aluminum Industry (2,000 mt). Industry sources said that aluminum exports to China

#### NEW CHINESE CLEARINGHOUSE FOR FOREIGN PRODUCTS

The China Council for the Promotion of International Trade (CCPIT) recently announced that it has established a new center to collect information on foreign products and technologies. Dubbed the center Introducing Literature and Samples of New Foreign Products, this new Chinese Library is "prepared to accept all free literature of new products, samples, house magazines and technical films from firms all over the world for exhibition, distribution and lending to "end users" in China. While the center will not participate directly in business negotiations, it is "designed to benefit the promotion of friendship and trade between China and the rest of the world." Companies interested in supplying this new center with product information should address themselves to the Center Introducing Literature and Samples of New Foreign Products, CCPIT, P.O. Box 1420, Peking, People's Republic of China.



this year were likely to reach 100,000 mt, double last year's level, as Japanese smelters strive to increase exports to reduce swollen inventories. Bahrain will ship 40,000 mt of aluminum to China, according to a report of October, 1977. A deal for 2,900 mt of aluminum ingot between China and Iceland was reported in July. Value of the contract was reported to be near \$3 million. Paris papers reported in mid-September that China had bought 30,000 mt of **copper** on the London Metals Market in four weeks in August and September. The copper purchases may signal the beginning of a new surge of Chinese buying; the orders already top total imports for 1976 by 2,600 mt. **In chemical fertilizers**, Canada made sales in July and August of 50,000 tons of potash. Estimated value of the sales, announced by nationally owned Canpotex, Ltd., was \$3.2 million. A large contract for supply of 300,000 mt of **Iranian crude oil**, worth \$28 million, was confirmed by the *Tehran Journal* of 9/1/77. The contract, signed during the visit of a 7-man Chinese delegation led by Liu Pao-nien to Iran in September, increased Chinese purchases of Iranian crude by 100,000 mt over previous years. Payment will be in cash. **In petrochemicals**, China has ordered nearly 10,000 tons of PVC from Japanese manufacturers for delivery in September to November, bringing total PVC sales to China this year to 22,000 tons. The sales agreement was concluded in Peking after the Japanese dropped initial demands for higher prices, which have been held to last year's levels. **Agricultural commodities** China was in the market again in September for an unspecified amount of **raw sugar** for delivery in December through February, 1978. Traders speculated sales to the PRC may be in the 100 to 200 thousand-ton range, based on earlier sales this year of as much as 560,000 tons by Australian, Philippine, and Thai suppliers. Australian shipments alone have already reached 260,000 tons, an all-time high. The massive increase in Australian sugar sales to China began in 1975, resulting in part from the start-up of an imported bagging plant at Whampoa Port in south China, enabling China to import bulk sugar. The present negotiations between Chinese buying authorities and CSR Ltd., the Queens-

land Government's sugar market agent, had not entered the stage of actual contract discussions as of November. Thailand, which released mid-year totals of sugar exports to China on 9/27/77 of 560,000 tons, more recently sold 5,000 tons of green beans to China. Brazil announced October 20 that it has sold a total of \$70 million worth of **soybeans** to China in the January-August period. Malaysia has launched an export drive to sell more **palm oil** to China, a trade that has already practically quadrupled since 1974. Malaysian **rubber** sales to China have also made a comeback after the slow year in 1976, with orders for 40,500 tons in the January-May period, compared to total sales in 1976 of 61,000 tons. Singapore also is likely to win a share of the rubber trade following the November trip of a Singapore trade delegation to Peking. **Textiles** New horizons have opened in the Sino-Egyptian trade in natural fibers since President Anwar Sadat's decision in August to suspend **cotton exports** to the Soviet Union and Czechoslovakia. China promptly offered to buy more cotton from Egypt, according to a 10/5/77 report. **In synthetic fabrics and fibers**, China has apparently agreed to import a record volume of synthetic fabrics, about 20 million square meters, from seven Japanese fiber firms, mostly for shipment in the October-December quarter. In late August Toray Industries and Unitika, Ltd., Japan's two major textile manufacturers, reported sales of some 3 million meters of wide polyester fabrics at a price of about \$1.50 per meter, followed in September by an order placed with Tango Shoji, a trading firm based in Kanazawa City, for 7.35 million meters of processed yarn, nylon, polyester and pongee fabrics valued at about ¥2 billion (\$7,534,375). Contract negotiations eventually included two more trading agencies and five companies in addition to Toray and Unitika: Kuraray Co., Toyobo Co., Mitsubishi Rayon Co., Teijin Ltd., and Asahi Chemical Industry Co. Additional contracts for 2,000 tons of processed nylon yarn, mainly 70 denier, went to Toray, Asahi Chemical, Toyobo, and Unitika. **Consumer goods** In addition to reaching an agreement on record liftings of Iranian oil, a Chinese trade delegation visiting Tehran in early

September signed another agreement for purchase of consumer goods including television sets, textile products, razor blades, and shoes. China bought 15,000 tons of **newsprint** from the Tasman Pulp and Paper Company for delivery in October-November, the first such order from a New Zealand firm. During the China trip of New Zealand Deputy Prime Minister Brian Talboys in October, Chinese leaders promised to buy pulp, newsprint, building timber, and lumber in larger quantities than before. And indicating a pressing need for educational and scientific literature, in early November Kyodo News Service reported that China was buying large quantities of school textbooks from the Western nations including Japan. National Book Import and Export Corporation and TECH-IMPORT contracts for **books** with Japanese companies went to three trading houses and a Tokyo bookstore known for its friendly relations with China. According to Kyodo, the books requested were mainly on science and engineering education and included materials at the master's and doctorate levels. All orders were placed without publicity in September and October. China has been building up its media industry through imports of TV cameras, sets, and films: two portable television cameras worth \$185,000 from the Japanese firms of Kanematsu-Gosho and Ikegami Tsushinki, for delivery in early 1978; **50,000 black and white TV sets** from the Hungarian firm, Videoton Company, worth \$5 million; Yugoslav feature films, *Walter Defends Sarajevo* and *Bridge*; and *The Sweeny*, a British film based on a popular British television series, distributed by Britain's EMI Ltd. **Calculated to please the palates of Chinese consumers:** A poultry farm from Caistor, Lincolnshire, England, reported (8/22) cumulative sales to the PRC of more than twenty million duck's feet and tongues. **Real Estate** Two Peking-owned banks, the Kin-cheng Bank Corporation and China State Bank Ltd., and a retail store, China Products Co., have bought \$200 million worth of prime real estate in Hong Kong, in the Central and Causeway Bay areas. The purchases included the former Jam Fair Building, at a selling price of \$28 million (China State Bank); nine floors of the China Underwriters and Life Insurance Building



(Kincheng Bank); and four floors of the new Lok Sing Center Shopping Mall (China Products) now rising on the site of the former Roxy Theater in Causeway Bay, at a reported cost of \$70 million including \$12 million of interior decorations.

## CHINA SELLING REPORTS

**Energy products** The Chinese-owned Far East Overseas Oil Co. (FEOSO) of Hong Kong has plans to open an outlet for sale of Chinese bunker fuel in Singapore. Actual sales are not expected for two or three years. FEOSO executives were in Singapore in May and June to discuss problems of storage, supply, and pricing with company representatives in Singapore, according to Hong Kong sources (9/77). Nine regional electric power industries in Japan announced in September that they would abandon their past policy of avoiding the use of Chinese oil and plan to rely on Chinese suppliers in the future. The Japanese coal industry proposed to buy one million tons per year of Chinese steaming coal for thermal power generation at plants under construction in Matsushima, Nagasaki Prefecture. Shipment is due to begin in 1980 when the first of the two plants goes onstream. **Metals and minerals** China has agreed to sell Japanese steelmakers 50,000 tons of fluorspar for delivery in the current fiscal year, with 30,000 tons due for delivery by the end of December. Prices were reported at 85.5 RMB/ton FOB for 80% grade ore (\$46), a decline of about 6.5% from last year's prices. Shipments will comprise 75%, 80%, and 85% grade material. **Machinery** A \$36 million cold storage plant equipped with Chinese machinery supplied by MACHIMPEX via China Resources Co. opened in Aberdeen, Hong Kong, on 10/30/77. The first cold storage plant in Asia equipped with Chinese machinery, the plant has a storage capacity of 8,000 tons and an ice-making capacity of 440 tons a day and is "by far," according to accounts, the largest such facility in Hong Kong. The plant also provides deep-freeze service for the export of fishery products. Construction began in 1974 and was completed with the aid of Chinese engineers. **Agricultural commodities** CEROILS signed contracts for supply of 5,000 metric tons of soybeans at 505/RMB/

ton (\$272) for delivery in September. The soybeans offered for sale will be used in production of "miso" paste, a popular Japanese food base, and are unsuitable for soybean oil production, for which China imports its own soybean from abroad. Japanese importers bought an additional 4,000 mt for November delivery in late September.

## DELEGATIONS TO CHINA

**AUSTRALIA, 8/22-9/7/77, Trade delegation** led by Neville Blyton, President of the Australia-China Business Co-operation Committee, met with leading members of the China Council for the Promotion of International Trade (CCPIT) in Peking. Included on the trip were representatives of Broken Hill Proprietary, Western Mining Corporation, Hawker de Havilland, and other Australia-based companies.

**AUSTRALIA, 9/3-8/77, Premier of New South Wales Neville Wran** visited China with a proposal to set up a trade office in Sydney to supervise trade between the PRC and New South Wales. According to Radio Australia, Chinese leaders were cool to the idea; his visit was followed on 10/13 by that of another high-ranking Australian official, Sir Zelman Cowen, the Governor-General Designate.

**AUSTRIA 8/29-9/6/77, Forestry study group** led by Dr. Oskar Weihs met with officials of the Ministry of Agriculture and Forestry.

**BELGIUM, 10/3/77, Delegation to the third session of the China-BLEU (Belgian-Luxembourg Economic Union) Economic and Mixed Trade Commission** arrived in Peking.

**BELGIUM, 10/12-23/77, Delegation of the Economic Commission of the Belgium-China Association** led by Charles Roger, chairman of the commission, met with Wang Yao-ting and Hsiao Fang-chou of the CCPIT for talks in Peking.

**BOLIVIA, 10/12/77, Industrial and economic delegation** led by Guillermo Gutierrez arrived in Peking under CCPIT auspices.

**BURMA, 9/16-20/77, President and Chairman of the Council of State U Ne Win** visited China.

**BURMA, 9/5-27/77, Four-member**

## WHERE TO LOOK AT NATIONAL COUNCIL PUBLICATIONS ABROAD

For National Council members in Hong Kong and Japan, Council publications are now available for inspection. All current *China Business Reviews* as well as the recently published three-volume *Directory of Scientific Research Institutes in China* and the 518-page *Directory of Foreign Exhibitions in China* are available. In Tokyo, companies should contact Mr. A.F.J. Finnerty, Manpower Temporary Services, Kowa No. 3 Building, 11-45, Akasaka 1-Chome, Minato-ku, Tokyo 107 (telephone: 03 582-1761); and in Hong Kong, Council Representative John Kamm, 10/F, Flat C, Ka On Building, 8-14 Connaught Road West, Hong Kong (telephone: 5-444682).

**trade study group** led by the Chairman of the Board of the Paper, Stationery, Printing, and Photo Supplies Trading Company was invited to China by the Ministry of Commerce.

**CAMBODIA, 9/28-10/22/77, Cambodia's highest-ranking leader, Pol Pot,** spent nearly a month in China at government behest.

**CAMEROON, 10/4/77, At the invitation of the Chinese government, President Ahidjo** arrived in Peking to pay an official visit.

**CANADA, 7/18-8/8/77, Frozen earth study group** led by Dr. Brown of the Canadian National Research Council visited China as guests of the Chinese Society of Civil Engineering.

**CANADA, 10/10/77, Delegation of the Canadian National Film Board** arrived in Peking.

**CENTRAL AFRICAN REPUBLIC, 10/17-20/77, Government trade delegation** stopped in Peking after attending the opening of the Fall Canton Fair.

**DENMARK, 9/5/77, Delegation of the Federation of Danish Architects** arrived in Peking for technical talks with their Chinese counterparts on



town planning and other architectural questions.

**EQUATORIAL GUINEA, 9/20-27/77, President Ndong** paid a state visit upon government invitation.

**FIJI, 10/12/77,** Hosted by the Ministry of Foreign Trade, a **government trade mission** under the leadership of the Minister of Commerce and Industry, Mohammed Ramzan, visited Peking, Shanghai, and Kwangchow.

**FRANCE, 9/7/77, Delegation of deputies of the National Assembly** led by Pierre Bas arrived in Peking. According to widespread reports, the **main objective of the mission was to offer China an export financing scheme** drawn up by Credit Lyonnais and other French banks. Follow-up to the mission was noted in early November, when the state-owned Banque Nationale de Paris entered into negotiations with the Bank of China over possible financial arrangements.

**FRANCE, 9/1-8/77, Scientific and technical information delegation** under the leadership of Jean-Claude Pelissolo gave presentations in Shanghai. Of the fifteen members of the delegation, two were from private industry—representatives of CII-HB and La Steria—and the remainder from the academic community.

**FRANCE, 9/14/77,** Arrival of a group of **nuclear physicists** led by physicist Vincent Gillet.

**FRANCE, 9/26-30/77,** Presentations on technology of packet switching networks given in Peking by a **representative of Sesa, the computer software firm.** The Chinese are particularly interested in the French Transpac system which Sesa designed, according to a report in *Computing* (9/29/77).

**FRANCE, 9/29/77, Delegation of La Societe Television Francaise I** in Peking for talks with the Central Broadcasting Administration of the PRC.

**GABON, 8/25-9/6/77, Agricultural delegation** under the leadership of the Minister of State for Agriculture, Simon Essimengane, held talks on technical cooperation in agriculture with officials of the PRC Ministry of Agriculture and Forestry.

**GERMANY (FRG), 9/8/77,** Director of the **Aachen Woolen Research In-**

**stitute** Professor Helmut Zahn and colleagues arrived in Peking for academic exchanges with their hosts of the Chinese Academy of Sciences.

**GERMANY (FRG), 9/11/77, Television delegation** from the Council of the Television ZDF (Zweites Deutsches Fernsehen) led by Council Chairman Jockel Fuchs arrived in Peking for talks with the PRC Central Broadcasting Administration.

**GERMANY (FRG), 9/13-10/3/77,** Beginning a series of visits by prominent German politicians and defense experts, **General Johannes Steinhoff** arrived in China for a three-week tour which included nuclear testing facilities in the northwest. Steinhoff, former head of Luftwaffe, is currently chairman of the NATO Military Committee. He was invited by the Chinese Society for Foreign Relations.

**GERMANY (FRG), 9/13/77, Coal industry delegation** led by Professor S. Kneuper met in Peking with the Vice Minister of Coal Industry, Hsu Tsailien. The delegation is visiting the PRC in accordance with an agreement reached between the Chinese Academy of Sciences and the Ministry of Research and Technology of the Federal Republic of Germany.

**GERMANY (FRG), 9/14/77,** Professor Martin Bock of the **Society for Heavy-Ion Research** of the FRG, with Professor Jorrit de Boer of the University of Munich, was feted in Peking by the Chinese Academy of Sciences.

**GERMANY (FRG), 9/21-10/12/77, Bundestag Defense Committee Chairman Manfred Woerner** together with three top retired military men visited the PRC in order to get to know "the equipment and the spirit" of the Chinese armed forces. Woerner and his party were granted a rare glimpse of missile equipment of the Chinese navy, including **fifteen high-speed missile ships with homing missiles of the "Styx" type with a range of about 20 kilometers.** Two of Woerner's group formerly were ranking officials of the NATO organization.

**GERMANY (FRG), 10/12-15/77, FRG Foreign Minister Hans-Dietrich Genscher** arrived for talks to test out Sino-West German rapport on the fifth anniversary of the establishment of

diplomatic relations. Otto von Amerongen, president of the German Convention of Industry and Trade, accompanying Genscher, told the West German news agency DPA in Peking that **the Bank of China was ready to accept foreign cash deposits at prevailing interest rates (6-6½%);** the report has not yet been confirmed by the Chinese, however. Others in Genscher's group concluded deals totaling \$200-\$240 million, primarily for steel and mining equipment.

**GERMANY (FRG), 10/12-17/77,** Airline service between China and West Germany will soon be initiated, according to **Lufthansa Chairman Herbert Culmann**, who spent five days in the PRC discussing implementation of the 1975 bilateral agreement between the two countries.

**GERMANY (FRG), 11/1/77, Earth sciences delegation** from the Max Planck Institute received in Peking by members of the Chinese Academy of Sciences.

**GERMANY (FRG), 11/7/77, Director of the Research Center of Electronic Synchrotron Herwig Schopper** met in Peking with the vice president of the Chinese Academy of Sciences, Fang I.

**GHANA, 8/8-25/77, Delegation from the Center for Scientific Research into Plant Medicine** hosted by the Chinese Academy of Medical Sciences.

**GREAT BRITAIN, 8/16/77,** Arrival of a **biological control mission** led by Dr. J. Rishbeth, Fellow of the Royal Society.

**GREAT BRITAIN, 8/30-9/7/77,** Nine-company mission sponsored by the **Coventry Chamber of Commerce** gave technical presentations in Peking. The delegation, led by Richard Naylor, managing director of P.M.D. Chemicals, Ltd., included representatives of Rolls-Royce, General Electric Company (GEC), Automotive Products, and Abbey Panels.

**GREAT BRITAIN, 9/10/77,** President Brian Mercer and four directors of **Netlon Ltd.** left for Peking to present a technical symposium on the plastic mesh products for which Netlon is known; Dr. Mercer is the inventor of the mesh manufacturing process which has been licensed to firms in more than twenty countries.



**GREAT BRITAIN, 9/28-10/8/77,** President of the Sino-British Trade Council and Chairman of GEC Lord Nelson of Stafford led a **delegation of business leaders** for talks with CCPIT chief Wang Yao-ting on past and present status of Sino-British trade. According to Sir John Keswick, second-in-command of the Sino-British Trade Council and director of Jardine Matheson, the group was subjected to exhaustive questioning by the Chinese on the state-of-the-art of various areas of British technology, particularly the mining and railway industries. The mission included Sir Charles Villiers, chairman of the British Steel Corporation, D. L. Bartlett, director-general of the British Railway Industry Export Group, and M. F. Dowding of Davy-Ashmore International.

**GREAT BRITAIN, 9/29-10/2/77, The Shadow Minister for Trade, John Nott,** and David Howell, Conservative Party spokesman on economic and treasury affairs, met with Vice Premier Wang Chen. Nott told newsmen that there were excellent prospects for continued sales of agricultural machinery and aerospace technology.

**GREAT BRITAIN, 10/5/77, Delegation of the British Royal College of Defense Studies** led by K. D. Jamieson, Assistant Under Secretary of State, arrived in Peking.

**GREAT BRITAIN, 10/13/77, Sir Stanley Hooker,** technical advisor of Rolls-Royce Limited, met with Wang Chen, vice premier of the State Council, in Peking. Sir Stanley is an honorary professor of the Peking Aeronautical Engineering Institute.

**GREAT BRITAIN, 10/16/77, Lord Shawcross,** member of the House of Lords, arrived in Peking at the invitation of the Institute of Foreign Affairs. During his visit he had conversations with the chairman of the board of directors of the Bank of China, Chiao Pei-hsin.

**GREAT BRITAIN, 10/18-24/77,** On his third visit to the PRC, **Former Prime Minister Edward Heath** was entertained by the top leadership.

**GREAT BRITAIN, 10/29-11/8/77, A twenty-four man mission organized by "Business Perspectives"** met for talks with Chairman Wang Yao-ting and others of the CCPIT on possible new areas of trade. Led by Lord Roll

of Ipsden, chairman of S. G. Warburg, the mission included top executives of Lonrho, Courtalds, Burmah Oil, the British Aircraft Corporation, and Guinness Peat Overseas, with representatives of Morgan Grenfell, Hawker Siddeley, and British Petroleum.

**INDIA, 10/15/77, Four-member trade delegation** from the State Trading Corporation, the Metals and Minerals Trading Corporation, the Steel Authority of India, and Hindustan Machine Tools attended the Kwangchow autumn trade fair. The team was reported to have concluded deals worth \$2.2 million.

**ITALY, 10/9-16/77, Fiat's Vice President and Italian Senator Umberto Agnelli** conferred with Wang Yao-ting, head of the CCPIT, in Peking. In two hours of talks, Wang Yao-ting stressed the problems of China's public transport and railroad, the "weak link" in the economy, and the role that big European companies like Fiat might play in the modernization of the transport and other sectors. During final talks with the deputy minister of machine building, Hsiang Nan, agreement was reached to send technical missions from Fiat in the near future.

**JAPAN, 8/16-22/77, Delegation of the Japan Wirerope Manufacturers' Association** led by President Koichi Kabayashi held talks in Peking on volume and price of wirerope exports to China for the first half of next year; China annually absorbs about half of Japan's production of wirerope for export.

**JAPAN, 8/16/77,** At the invitation of the Chinese Society of Agronomy, Makoto Saito and the **delegation of the Asian Agro-Technique Exchange Association of Japan** visited China. The group was told of a massive program currently underway to promote food stockpiling against emergencies.

**JAPAN, 8/29/77, Delegation of the Ministry of Agriculture and Forestry** arrived to participate in technical exchange in the production of peas, beans, and miscellaneous grain crops.

**JAPAN, 8/29-9/5/77, Exploratory steel industry delegation** led by Yuzuru Abe, senior vice president of Nippon Steel, to initiate negotiations

on steel exports to China in the July-to-December period failed to win its chief objective, an agreement from the Chinese to raise the purchase price of Japanese steel. Agreement was reached to top the 2.2 million ton level of export in the first half of the year and to conclude negotiations in a second round of talks as quickly as possible.

**JAPAN, 9/1/77, The semi-official Japanese Electric Power Development Company** announced that it had sent a representative to Peking to discuss a long-term contract to import one million tons of steam coal annually for use at a thermal power plant under construction in Nagasaki, scheduled to go onstream in 1980.

**JAPAN, 9/7/77, Government trade delegation** to negotiations on the Japan-China Trademark Agreement arrived in Peking at CCPIT invitation.

**JAPAN, 9/7-15/77, Delegation of eight Dietmen of the New Liberal Club (NLC)** in support of the Japan-China Friendship Treaty met with Teng Hsiao-ping and Li Chiang. On economic issues, Vice Premier Teng announced new estimates of China's oil resources at 400 billion barrels.

**JAPAN, 9/7/77, Lace and embroidery mission** of the Association for Promotion of International Trade (Kokubosoku) announced in China for a 13-day tour of the textile industry. The mission was led by Chukichi Kondo, president of C. Kondo and Co., Ltd.

**JAPAN, 9/7-13/77, Oil industry inspection mission** headed by Vice President of International Oil Trading Co. Ichizo Kimura conferred with SINOCHEN officials in Peking about raising Japan's imports of Chinese crude oil on a long-term basis. The fifteen-man team included representatives of Idemitsu Kosan Co. and Maruzen Oil Co. and was organized by the Japanese Federation of Economic Organizations (Keidanren).

**JAPAN, 9/13-18/77, Shipping delegation** led by Ichizo Kimura held talks in Peking with officials of the China Ocean Shipping Company (COSCO).

**JAPAN, 9/15-29/77, Automobile industry delegation** led by Tomio Kubo, president of the Mitsubishi



Motor Co., visited China to promote technological exchange with the Chinese automotive industry. The mission included representatives of all Japanese auto manufacturers except Suzuki Motor Co. and was hosted by the Chinese Society of Mechanical Engineers.

**JAPAN, 9/22/77, Delegation from Fukuoka aquatic products circles** arrived in Peking for friendly talks with the Chinese Fishery Association.

**JAPAN, 9/26-10/5/77, Team of experts of the Japanese National Railways and JARTS (Japan Railway Technical Service)** visited Peking to work out a program on technological exchange. Kaoru Takiyama of Japan National Railways told newsmen that assistance would probably be limited to the construction of a large marshaling yard in the environs of Peking. **China's railway construction is swiftly passing beyond the point of needing Japanese technical aid,** he said.

**JAPAN, 10/14-11/7/77, Electric power industry mission** visited China for technical exchange on power transmission and transformer systems. The 13-man mission visited power plants, transformer facilities, and research institutes in Shanghai and Harbin.

**JAPAN, 10/12/77, Second steel mission** under the leadership of Nippon Steel Corporation Managing Director Nobuyoshi Teranishi dispatched to work out concrete details of contract terms for steel shipments in July to December, 1977. The team expected to obtain a quantitative increase over 2.2 million tons ordered by MIN-METALS for delivery in the first half of 1977, possibly to 2.3 million tons.

**JAPAN, 10/19/77, Chairman Aiichiro Fujiyama** of the Japan Association for the Promotion of International Trade (Kokubosoku) led an **economic and trade delegation** to discuss Japanese assistance in China's modernization program. Meeting with Vice Premier Li Hsien-nien and Minister of Foreign Trade Li Chiang, among others, they were requested to prepare a position paper on the Japanese side of Sino-Japanese trade, to which China may respond in kind. It was made clear that **the Chinese leadership is seeking technical aid in such areas**

**as factory management and other engineering services** as well as exports of plants and machinery. The delegation included chairmen of Mitsui and Company, Tokyo Shibaura Electric Co. (Toshiba), and Asia Oil Company.

**JAPAN, 10/26-11/2/77, Bank of Tokyo mission** led by Bank President Yusuke Kashiwagi visited China to exchange views with banking officials.

**JAPAN, 10/31/77, Film delegation** arrived at the invitation of the Chinese People's Association for Friendship with Foreign Countries.

**JAPAN, 11/77, Eximbank Vice President Daizo Hoshino slated to go to Peking to present Japan's conditions for resumption of export financing from China,** which has been suspended since last December. China has requested easy terms to finance high levels of plant imports in the next eight years, asking for interest rates of 7% compared to the minimum rate of 7.75% ordinarily charged by Eximbank on supplier credits for firms selling to state trading countries going beyond five years. Hoshino is being hosted by the Bank of China.

**JAPAN, 11/77, Mission from the Japanese fertilizer industry** sent for talks with SINOCHEN on fertilizer exports to China in the latter half of the 1977 fertilizer year (January to the end of June, 1978).

**JAPAN, 11/77, Top executives of the Mitsubishi combine** to visit Peking, including Chujiro Fujino, board chairman of Mitsubishi Corporation, and Wataru Tajitsu, adviser to the Mitsubishi Bank.

**JAPAN, 11/77, Chairman of the board of Sumitomo Shoji Kaisha, Ltd., Yukio Shibayama, heading the first mission of the Japan Foreign Trade Council in three years,** held meetings with Chinese leaders to discuss means of expanding Sino-Japanese trade and ideal composition of trade over the long term.

**JAPAN, 11/77, Technical exchange mission** dispatched by Hitachi, Ltd., under terms of an agreement for cooperation on physical and chemical equipment.

**JAPAN, 1978, Delegation of the Society of Japanese Aerospace Com-**

**panies, Inc.,** set for next year to promote exchange of technologies and information on aircraft.

**MALTA, 11/3/77, Prime Minister Dominic Mintoff** began China trip at government invitation.

**MAURITANIA, 10/19/77, Trade delegation** under the leadership of Ahmed Amer, general director of the National Import and Export Corporation, left for home.

**MOZAMBIQUE, 9/12-20/77, Government delegation** led by Marcelino dos Santos, minister of development and economic planning, discussed means of expanding economic cooperation between the two countries.

**NETHERLANDS, 10/19/77, Trade delegation** arrived to attend the third session of the Sino-Dutch economic and trade joint committee. The delegation was led by De Grooth, director-general for foreign economic relations of the Ministry of Economic Affairs.

**NEW ZEALAND, 10/25-11/1/77, Deputy Prime Minister Brian Edward Talboys** conferred with Chinese leaders on raising the level of trade between the two countries above the 1976 level; China will buy more of New Zealand's pulp, newsprint, building timber, and lumber and, in exchange, may ask for scientific and technical assistance.

**NIGER, 9/16-23/77, Lt. Col. Seyni Kountche, Chief of State** of Niger, paid an official visit.

**NIGER, 10/6/77, Agricultural delegation** led by Mamane Bruh, Secretary of State for Rural Development, left for home following talks with officials of the Ministry of Agriculture and Forestry.

**PHILIPPINES, 9/6/77, Small industry study group** left after visiting sites in south China.

**PHILIPPINES, 9/14/66, Technology mission** led by Alfredo Juinio, Secretary of Public Works, Transportation, and Communications, left after talks with officials of the Ministry of Communications.

**PHILIPPINES, 9/25-30/77, At the invitation of the Ministry of Defense, General Remeo C. Espino,** chief of staff of the Armed Forces, met with PLA counterparts.



**ROMANIA, 9/23-10/1/77, Government delegation** headed by Constantin Vancea, vice minister of foreign affairs, attended inauguration of the new Romanian Embassy building in Peking.

**SAO TOME-PRINCIPE, 8/13-14/77, Prime Minister Miguel Trovoadá** held talks with Vice Premier Li Hsien-nien.

**SAO TOME-PRINCIPE, 9/16/77, Agricultural delegation** arrived for visit at the invitation of the Ministry of Agriculture and Forestry.

**SENEGAL, 9/13-21/77, Government industry delegation** led by Louis Alexandrenne, Minister of Industrial Development and Environment, held talks with officials of the Ministry of Economic Relations with Foreign Countries.

**SINGAPORE, 10/3/77, Rubber mission** led by Tan Eng Joo, Chairman of the Rubber Association of Singapore, arrived in Peking.

**SOMALIA, 8/15/77, Arrival of the technical management group** of the new Mogadishu Stadium built with Chinese assistance, at the invitation of the State Physical Culture and Sports Commission.

**SRI LANKA, 10/23-28/77, Government trade delegation** led by L. Athulathmudala, Minister of Trade, and envoy of the Prime Minister.

**SUDAN, 8/31/77, Military delegation** led by Brigadier General Muslih Muhammed al-Amin arrived at the invitation of the Ministry of National Defense.

**SWEDEN, 9/14/77, Delegation of the Parliamentary Committee of Agriculture** led by Committee Chairman Einar Larrson arrived in Peking.

**SWEDEN, 10/14-27/77, General Stig Syn-Nergren**, Supreme Commander of the Armed Forces, inspected Chinese-built missile ships of the East China Sea Fleet based in Shanghai which he characterized as small but well equipped. While the potential for sales of Swedish military equipment was not discussed specifically during Syn-Nergren's talks with Chinese leaders, including Teng Hsiao-ping, he said he had invited a Chinese military delegation to Sweden for a survey of the country's military hardware.

**SWEDEN, 10/23-31/77, Technical delegation** of the Swedish Export Council led by B. Hogberg visited Peking as guests of the CCPIT.

**TANZANIA, 8/22-9/6/77, Five-member health delegation** visited China at the invitation of the Ministry of Public Health.

**VIETNAM, 9/13/77, Biological study group** arrived for study tour in accordance with the Sino-Vietnamese scientific cooperation plan.

**VIETNAM, 10/3-22/77, Petroleum study group** under Dinh Duc Thien, Minister of Oil and Natural Gas, visited China for talks with officials of the Ministry of Petroleum and Chemical Industries and a tour of oil fields and production facilities.

**VIETNAM, 10/25/77, Scientific and technical cooperation delegation** arrived for meetings of the executive organization committee for scientific and technical cooperation between China and Vietnam in 1978.

**ZAMBIA, 10/25/77, Minister of Commerce and Foreign Trade James Mapoma** arrived in Kwangchow.

#### DELEGATIONS FROM CHINA

**ALGERIA, 9/23/77, Head of the Ministry of Agriculture and Forestry Sha Feng** arrived in Algiers with an **agriculture delegation** to discuss plans for cooperation in agriculture.

**AUSTRALIA, 8/22-9/2/77, At government invitation Chai Shu-fan, Vice Minister of Foreign Trade**, paid an official visit during a stop in Brisbane. Queensland Minister for Primary Industries Vic Sullivan announced in the presence of Chai and his party that China may soon sign a long-term contract for Australian sugar.

**AUSTRALIA, 9/12-20/77, National People's Congress (NPC) delegation**, the first NPC group to visit a Western country since the Cultural Revolution and the highest level delegation ever to visit Australia, toured Australian cities under the leadership of Ulanfu, a member of the ruling Politburo, and Vice Chairman of the NPC.

**BANGLADESH, 8/24/77, Five-member machinery trade delegation** left after a 38-day tour to survey export prospects. MACHIMPEX official Yang

Shu-wen, leader of the mission, said that China was in a position to supply workshop equipment for the Adamjee and other jute mills.

**CANADA, 10/4-7/77, Foreign Minister Huang Hua** paid an official visit, meeting with Prime Minister Trudeau and other ranking officials. Canada's curbs on textile imports from China were discussed.

**CANADA, 10/8-22/77, An eight-member delegation from CHINA-PACK** visited Montreal, Toronto, and Ottawa studying the Canadian packaging industry.

**EGYPT, 9/77, Trade team** scheduled to go to Cairo to negotiate contract for the purchase of phosphate rock from the Hamawarin area.

**FRANCE, 8/16/77, Parachuting delegation** left for France at the invitation of the National Parachuting Association.

**FRANCE, 9/30/77, Study group** of the Chinese Society of Oceanography left for France to attend the International Exhibition on the Exploitation of the Sea at Bordeaux.

**FRANCE, 10/7-9/77, Foreign Minister Huang Hua** met for talks with President Valéry Giscard d'Estaing.

**FRANCE, 10/15-25/77, Goodwill military delegation** led by Deputy Chief of Staff Yang Cheng-wu visited military installations and conferred with officials of the French Government and Defense Ministry. Delegation Chief Yang openly admitted China's military obsolescence and asked for French help in modernization of the armed forces, hinting that there may be purchases of French military hardware including ground-to-ground missiles.

**GERMANY (FRG), 10/28/77, Seven-member optical testing and measuring study group** of the Chinese Academy of Sciences led by Professor Wang Ta-heng, Director of the Changchun Institute of Optical and Precision Machinery, left for study in West Germany.

**GREAT BRITAIN, 9/20-26/77, Delegation of the Chinese Electronics Society** led by Lei Hung visited England's Marconi Space and Defense Systems, BAC, Cable & Wireless and HSD, in the course of a forty-day tour of



European space technology facilities. The purpose of the tour, organized at Chinese request, apparently was to assess the level of technology needed for developing advanced satellite communications programs.

**GREAT BRITAIN, 10/7/77, Eleven-member delegation of the Chinese coal industry** led by Hsu Nan, Director of the Foreign Affairs Bureau, departed Peking for Britain for visit hosted by the UK's National Coal Board.

**GREAT BRITAIN, 10/18/77, Delegation from the China Fire Appliance Company** toured manufacturing facilities of the Simon Engineering Dudley Company, including a demonstration of the firm's 91st fire fighting hydraulic platform during visit hosted by the Sino-British Trade Council.

**GREAT BRITAIN, 10/22-11/13/77, Study group on metal corrosion and protection** led by Liu Shou-jung, Deputy Head of the Department of the Changchun Institute of Applied Physics toured metal corrosion laboratories and research institutes and visited facilities of Morgan Berkeley & Co., a manufacturer of equipment for corrosion protection, Imperial Metal Industries, Henry Wiggin & Co., Ltd., Imperial Chemical Industries, and the British Steel Corporation. The Great Britain-China Center, which hosted the delegation, also arranged for a special presentation of papers by members of the British Aircraft Corporation on questions of applications of technology to practical engineering processes.

**IRAN, 10/28/77, Government trade delegation** departed to attend the third session of the China-Iran Mixed Trade Committee.

**ITALY, 10/23-11/3/77, Posts and telecommunications delegation** accompanied by the minister, Chung Fu-hsiang, toured radio-television, posts and telecommunications establishments, and manufacturers of postal automation devices, computers and teletypewriters.

**ITALY, 11/77, CCPIT Chairman Wang Yao-ting** slated to visit Italy in the second half of November. The announcement was made in conversations between Foreign Trade Minister Li Chiang and Fiat Vice President Um-

berto Agnelli, visiting China to survey prospects for auto technology sales.

**JAPAN, 9/6/77, Friendship delegation of the China International Travel Service** led by Chang Yu arrived in Tokyo.

**JAPAN, 9/13-10/3/77, Vice Minister of Foreign Trade Liu Hsi-wen** visited Japan in order to open a Chinese trade fair in Kitakyushu and attend to other items of current business in Sino-Japanese commercial relations.

**JAPAN, 9/16-10/14/77, Delegation of the Society of Metals** led by Yeh Chih-chiang, President of the Society and Vice Minister of Metallurgy, visited facilities of Nippon Steel Corporation and some other companies, machine building factories, metallurgical enterprises and research institutes.

**JAPAN, 9/23-10/14/77, Light-sensitive materials delegation** led by Chin Hung-tao visited Japan to attend an international symposium on light-sensitive materials.

**JAPAN, 10/4/77, Arrival of delegation from the Chinese shipbuilding industry** feted by welcome committee made up of officers of Hitachi Shipbuilding Company, the Japan Shipbuilding and Engineering Society, and the Japan Association for Promotion of International Trade, host organizations of the visit.

**JAPAN, 10/21-11/20/77, Food manufacturing delegation** visited Japan for a survey of food machinery, packaging machines, vending machines, warehouses and food processing techniques. Foods of special interest to the group included dairy products, Chinese style noodles, soybean cakes, canned foods, biscuits and chocolates.

**MALAYSIA, 9/4/77, Survey delegation to the Malaysian palm oil industry** visited Kuala Lumpur to investigate the uses of palm oil and study the planting, production, refining and marketing of the product.

**MEXICO, 8/17-9/19/77, Maize study group** visited the country as guests of the International Center for the improvement of Maize and Wheat (CIM-MYT).

**NEW ZEALAND, 8/16-22/77, Vice Minister of Foreign Trade Chai Shu-fan** held talks with government leaders and attended Chinese Pavilion

Day at the 1977 New Zealand International Trade Fair in Auckland.

**NEW ZEALAND, 9/21-27/77, Ulanfu, Vice Chairman of the NPC Standing Committee**, visited agricultural and industrial establishments on the north and south islands.

**ROMANIA, 9/25-28/77, Military delegation** led by Yang Cheng-wu, Deputy Chief of Staff of the People's Liberation Army (PLA) visited President Nicolae Ceausescu and other government and military officials.

**SINGAPORE, 9/20-29/77, Five-member official trade delegation** led by Hsi yeh-sheng, Director of the Asian Department of the Ministry of Foreign Trade, held talks with Singapore trade officials.

**SWITZERLAND, 9/20-28/77, Hosted by the Swiss Federal Office of Civil Defense, People's Air Defense delegation** under the leadership of Wang Wen-hsien visited underground structures and the instruction centers of civil defense in Zurich, Appenzell, Basel, and other Swiss cities.

**TUNISIA, 10/21-28/77, Military delegation** headed by Deputy Chief of Staff of the PLA Wang Shang-jung paid an official visit at the invitation of Tunisian Minister of Defense Abdallah Farhat.

**VIETNAM, 10/17-30/77, Delegation of the Ministry of Light Industry** led by Vice Minister Chiao Shan-min attended opening ceremony of a cotton printing and dyeing mill built with Chinese aid.

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## CORRECTIONS

*CBR* 4:5, p. 53, col. 2: The September 8 AFP report that Massey-Ferguson had sold 3,000 tractors to the PRC was, subsequently, retracted by the French news agency. The Canadian agricultural equipment supplier has had no significant sales to China in recent years, according to company spokesmen. *CBR* 4:5, p. 44, col. 3: The first-time availability of original Chinese oil paintings was given as in 1977. In fact, such paintings have been available to US buyers since 1974 when Chinese works of art purchased by the China Trade Corporation were displayed in San Francisco.



# The China Business Review



is Published by

The National Council for United States-China Trade  
1050 Seventeenth Street, N.W., Suite 350  
Washington, D.C. 20036

202/331-0290

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Membership in the National Council for United States-China Trade is open to American firms interested in doing business with the People's Republic of China. The principal categories of membership are (1) corporations or business entities with sales or gross income equal to or greater than \$50 million for the fiscal year immediately preceding the date of application for membership, for whom the annual dues are \$2,875; (2) those with sales or gross income of between \$20 million and \$50 million for the fiscal year immediately preceding the date of application for membership, for whom the annual dues are \$1,150; and (3) those with sales or gross income of less than \$20 million for the fiscal year immediately preceding the date of application for membership, for whom the annual dues are \$575.

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