

China trade or China swindle?

AMA meeting throws cold water on much trade talk

China trade or China swindle was the uppermost question for many who attended the American Management Association's "Briefing Session" on "Doing Business with the People's Republic of China," held Feb. 15-16 at New York's Statler Hilton — even before news of China's invasion of Vietnam cast deep new questions over China trade prospects the next day. Despite efforts of spokesmen from the National Council on U.S.-China Trade (NCUSCT), the Commerce Department, and several companies successful in China to sell the more than 300 in attendance from 200 companies, the response demonstrates that few were buying.

By the end of the second morning session, one China analyst noted his suspicion that the audience was not being told the whole story when he catalogued the reasons for questioning the optimism of China trade enthusiasts.

The discrepancy between facts and the pre-presentation ballyhoo during Vice-Premier Teng Hsiao-ping's visit here is bound to fuel fears that the "China trade boom" is a hype which is being used as a cover for the U.S. "China card" policy — including even covert support for China's Vietnam invasion. Compounding such fears is the Administration's decision to proceed with Treasury Secretary Blumenthal's mission to Peking — officially a trade mission — despite the invasion.

Chinese industrial hype

President of the NCUSCT, Christopher Phillips, opened the meeting by stating that he believes we "can be more bullish than bearish" about the potentials of the China market for U.S. business, painting a picture of rapid economic growth and political stability. He reported that China hopes to complete 120 major projects by 1985 with a total domestic and foreign exchange investment cost of \$600 billion, according to figures given Phillips by Chinese official Li Hsien-nien.

Phillips laid out areas of U.S. export to China, without quantifying expected markets but leaving the impression that China's grandiose development plans imply large markets. He said that if China's foreign trade continued to grow at 20 percent per year until 1985 — a debatable guess — then China's two-way trade would amount to \$80 billion worldwide, compared to \$316 billion for the U.S. today.

The key questions — China's ability to pay for imports, service debts incurred, and internal stability — Phillips in effect brushed off. On China's ability to generate loans, he said, "China has an excellent credit rating," although China has no credit history, "and they have an excellent record for prudence" — a statement contradicted dramatically 36 hours later when China launched an invasion into Vietnam.

On the subject of Teng's rule, he offered, "Teng looks to be pretty secure. The policies being formulated are outward looking policies."

Phillips's conclusion was clear: ignore the problems and dive in.

The invasion: what does it mean for trade prospects?

China's invasion of Vietnam, if it doesn't lead to world war, does seem likely to shatter existing projections for China's development and import potential, and to make the prospect of Western investment risky to the point of being prohibitive. Analysts almost universally characterize Teng Hsiao-ping's decision to go to war against Vietnam as "reckless," dispelling the prevailing belief in China's extreme prudence. If China loses militarily in Vietnam, or if the Soviet Union moves militarily against China, the result is almost certain to topple Teng — the very symbol of China's "stability" to most Western businessmen.

Major shakeups may occur in any event, including the possible return to positions of real power by more "Maoist" leaders presently shunted to the side by Teng. Any such development would completely unhinge all present expectations for trade based on present development plans, which would certainly be modified significantly. Finally, the odds presently are very good that the Soviet Union will inflict serious economic as well as military damage on China — which would have incalculable negative effects on China's economic performance.

Bohdan Szuprowicz, head of 21st Century Research and an expert on socialist bloc economies, followed Phillips with as detailed economic picture of China as recorded statistics allow. Most striking was Szuprowicz's evaluation of China's energy needs. He reported that China intends to develop 10 oil fields on the scale of the existing Taching oil field which currently supplies one third of China's oil needs. China also plans to increase hydroelectric power from 1 percent consumption to a 50-fold increase in consumption with the completion of many ongoing projects.

But by Szuprowicz's estimate, China does not have 10 exploitable oil fields the size of Taching, and he seriously questions whether China's oil production target can be realized. He also cast doubt on hydroelectric power plans, given the huge expense for infrastructure and power transmission from the remote areas of generation to areas of use.

In summary, he noted the interest with which the Chinese are examining the possibilities for solar, geothermal, wind, tidal, bone coal, oil shale, and marsh gas, providing a strong indication that Chinese oil-production projections may be wildly kited. "If their oil reserves are as large as they say, why are they giving so much attention to these other sources?" he asked.

Mr. Szuprowicz refrained from spelling out the obvious conclusion, but given China's soaring demand for energy, any shortfall of on-shore production will have to be made up from China's offshore oil, which China

seems intent on having foreign oil companies develop. But this is the oil that foreign lenders and exporters universally count on to pay for China's imports and projected debt service. If that oil is needed entirely, or nearly so, for domestic use, projections for China's ability to pay must be slashed.

Thus, Szuprowicz presented very conservative figures for export trade to China. Pointing out that Mexico's oil reserves are twice China's, he said, "You may be swayed to go to Mexico tomorrow rather than to China."

Chinese investment puzzle

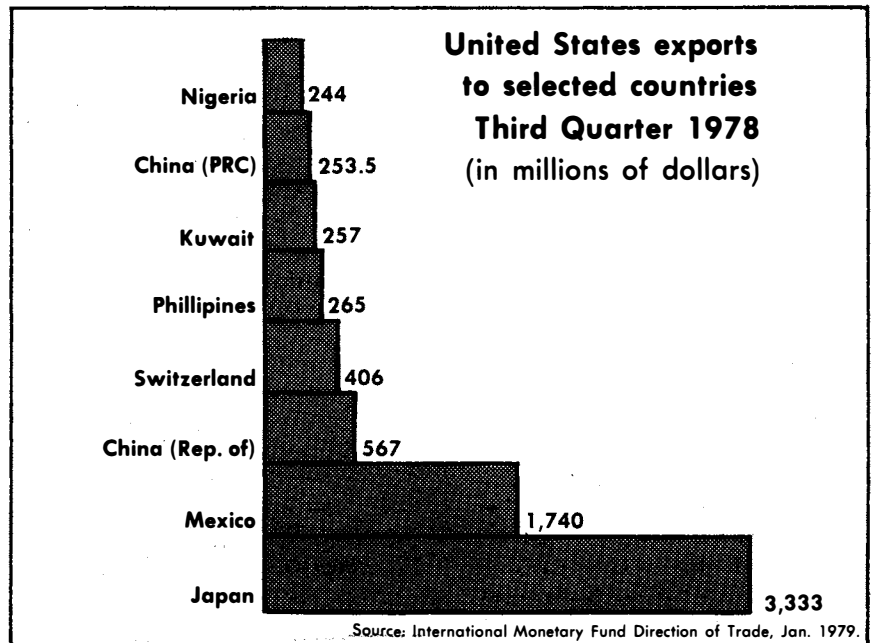
Following an introductory reference to sizable U.S. business community interest in China trade, William Clarke, Director of PRC Affairs for the Commerce Department, proceeded to deliver a down-to-earth account of the extraordinary effort required to land Chinese business deals. Nonetheless, he created the impression that the rewards are worth the not inconsiderable pain.

According to Clarke, China in general submits no tenders and solicits no bids: "market research is an intelligence operation." Clarke recommends that U.S. companies offer, at their own expense, technical state-of-the-art seminars in China in their respective fields — as a way of doing marketing research currently impossible to carry out.

The next step is to submit a bid, which in the past,

The China market— what the figures say

China's imports from the U.S. are a relatively small portion of the overall U.S. export mix, and in fact have expanded rapidly to their present levels from much tinier levels of a few years ago. The message: neither China nor U.S. exporters have the developed infrastructure to enable China to make a "quantum leap" in basic industrial imports from the U.S. at the present time. U.S. exporters should look to established trade partners such as Mexico — with developed industrialization programs and proven ability to pay — for the greatest immediate gains. The outlook for China: incremental import increases over the longer term. In any case, Japan, currently with \$800 plus millions per year in exports to China, is situated to grab the lion's share of increased Chinese import orders.



China has waited as long as four years to consider. Then, a team of high-level executives are expected to visit China to answer questions.

Clarke failed to address the question what makes this process more economically attractive than other possibilities such as Mexico, a neighbor with much more oil, established markets, and a strong desire for U.S. capital goods.

Bursting the bubble

Voicing the general reaction to these trade prospects on the second day, an independent analyst warned the group against "herd psychology," referencing the Jan. 9 meeting at the State Department where "getting in first" overshadowed hard-nosed evaluation of economic merits on the matter of China trade.

He reported that his own expert sources have determined that China's domestic oil consumption needs virtually rule out the possibility of financing imports for other sectors of the economy. He further questioned the grade of Chinese oil, which is low, waxy, and undesirable for many markets.

China's internal stability is also questionable, he said. Far from creating a nation of happy supporters, he noted, Vice-Premier Teng Hsiao-ping has actually alienated large segments of the Chinese population. For example, China has just revised agricultural policies to favor limited rural areas near cities, cutting out large-scale investments in the majority of China's agricultural

areas. Given that 80 percent of China's population still consists of peasants, this policy condemns a majority of the population to continued poverty, a situation that active dissenting political factions could make use of.

More to the point, he asserted that the U.S.-China rapprochement is mainly a political move to use China as a counter against the Soviet Union. In concluding, he asked rhetorically if the assembled business representatives thought the Administration would continue to support and encourage trade with China if China were to become friendly with the Soviet Union once more.

— Peter Rush

The lure of the Orient: it's a risky business

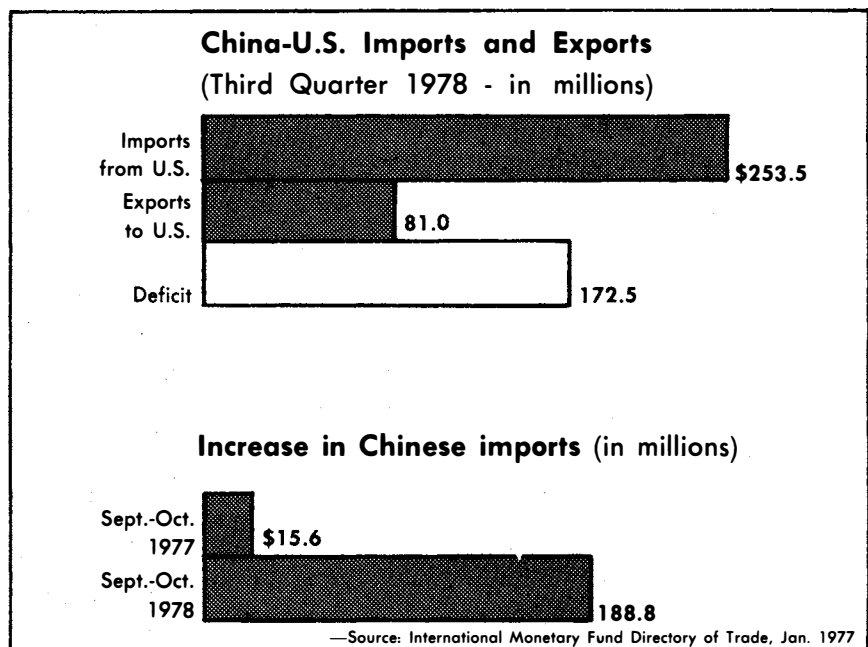
Excerpted here are portions of addresses given at the American Management Association's "Briefing Session" on "Doing Business with the People's Republic of China," held Feb. 15-16 at New York's Statler Hilton Hotel:

Christopher Phillips, President, National Council for U.S.-China Trade, Feb. 15:

"Are we about to enter on a modern version of the 18th century clipper ship days, or are we facing a much bleaker prospect Based on our experience, I think we can be more bullish than bearish. There will be an

China's import boom—can they pay?

The recent, large-scale expansion in Chinese imports, from the U.S. and other countries, has not been matched by a commensurate increase in Chinese exports to pay for them. Apart from the drug trade — and heavily saturated markets in baskets, printed cotton and dinnerware — experts see few major new sources of Chinese foreign exchange revenue in the short term. The conclusion: over the immediate few years, Chinese ability to pay for their expanding imports depends on large scale, government-guaranteed credit programs.



unprecedented expansion of China's economy. There will be \$70 bil. worth of foreign technology imported in the next seven years. We're faced with a prospect, unthinkable a few years ago, of plants dotting the countryside with names like Armco, Boeing, Coca Cola, PanAm, U.S. Steel, Westinghouse.... There will be skyscrapers, mechanized farms The ambitious targets set are indeed impressive. So too are the pitfalls and problems to be overcome In the next seven years, the Chinese want to complete 120 major projects. Li Hsien-nien (number four in Peking's hierarchy — ed.) told me that the cost of this investment program, in dollar terms, will be \$600 billion through 1985

There are no guarantees (on prospects for U.S. sales). Other countries have a very considerable headstart. They haven't laid a golden egg for all of us. The Chinese demand the best There must be an effective effort to sell our technology.... (Despite many problems) it is my advice that American companies should act now rather than waiting for all problems to clear up

How will the balance of China's foreign exchange be raised? Tourism, oil, foreign investment (are the main ones). When all is said and done, China will still have to get major financing. China has an excellent credit rating, and they have an excellent record for prudence. Li Hsien-nien said to me that 'we must not borrow more than we can repay. Other nations have done this, but we cannot'.... The longer-term outlook is very encouraging. Whether China achieves 100 percent, 75 percent or 50 percent of its development goals is less important than their momentum to move forward China's currency is among the world's most stable. Doing business there is a prospect few corporate managers will

want to ignore, but you will need thorough research and patience In brief, there are no easy answers here The most hazardous game is to speculate on China's future leadership. I am more interested in what the future holds for the policies being formulated. The policies are basically outward looking attitudes. Teng looks to be pretty secure.... If the policies of this leadership continue for another 2-3 years, they will become very hard to change after that.

William Clarke, director, PRC Affairs, Commerce Department:

Since Dec. 15, we have had 350 calls a day coming in, 100 letters a day, our staff has doubled to eight, and the number of seminars has soared. I'm scheduled for about 20 between now and June Factors to consider on the Chinese economy are: 80 percent of the population is in agriculture; per capita power consumption is at the same level as in Bolivia; 70 percent of their locomotives run on steam; there is no center city truck traffic; they ration domestic cotton cloth. There's a unique economy which must be analyzed on its own

How are import requirements generated? It is similar to the Soviet Union, but the details are lacking.... The process used to make their import decisions is not always clear. China's trade corporations preselect several firms, invite them to Peking, conduct protracted negotiations, and often make them compete against each other. This makes it difficult for market researchers. As one American put it, 'It's very hard for researchers to know when they will need things,' ... It's a difficult market. You need to allocate very senior technical personnel.