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China Report

ECONOMIC AFFAIRS

(FOUO 3/81)

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CONTENTS

FINANCE AND BANKING

CHINA TO RECEIVE $400 MILLION IN JAPANESE LOANS

Tokyo THE JAPAN ECONOMIC JOURNAL in English 11 Aug 81 p 3

[Text]

The Japanese Government has decided to offer untied five-year government and private bank loans totaling $400 million to China to help revive its once-cancelled industrial plant contracts with Japan, it was revealed last week.

Informed sources said the ministries of finance and others concerned also have agreed to offer commodity loans of $500 million and suppliers' credit of $430 million for plant equipment to China. If all are added up, sources said the total financial assistance to China will reach $1,330 million.

With the total capital assistance decided, the Government plans to hold working-level talks with China to determine details in August and reach a final settlement by mid-September when it invites Chinese Vice Premier Gu Mu for talks.

Up until recently, opinions within the Government have been split over whether to grant additional loans of Export-Import Bank of Japan to China. The Foreign Ministry and the Ministry of International Trade & Industry insisted that ordinary private banks loans, instead of Exim Bank loans, should be applied from the standpoint of strengthening the bilateral friendly ties. On the other hand, the Finance Ministry and Exim Bank expressed a reluctance to allow such private bank loans because of the need to grant an additional $300 billion in private bank loans from 1985 for development of natural resources.

After some squabbles over Exim Bank loans, the Government finally decided to grant Exim Bank loans through a unprecedented method of "global bank loans" to China. Under this method, loans granted will be stipulated for use, not for "plants" per se but for general machinery exports. However, it is granted that China can use those loans for paying personnel costs in plant constructions under this new method, thereby responding indirectly to China's requests for additional loans to help revive cancelled plant contracts.

According to government sources, 60 per cent of "global bank loans" will be borne by Exim bank and 40 per cent by city banks with an annual interest rate of 7.75 per cent for a period of 10 years. The city banks' loans will be insured, the sources also said, Furthermore, the sources said the planned $500 million in loans for constructions of Wu Qiang Xi power plants and the Dayaoshan Tunnel will be changed into commodity loans and the original $500 million will be used for plant purposes. For the rest of $430 million, the Government has decided to apply suppliers' credit mainly for Japanese trading houses and exporters.

CSO: 4020/17

FINANCE AND BANKING

CHINA WILL BE ALLOWED TO ISSUE PRIVATE BONDS IN JAPAN

Tokyo THE JAPAN ECONOMIC JOURNAL in English 13 Oct 81 p 1, 15

[Text]

For the first time in its history, People's Republic of China will raise funds on the international capital market when it makes a private placement of ¥10 billion worth of bonds in Tokyo in December.

The Japanese Ministry of Finance recently gave approval to the issue by the China International Trust and Investment Corp., the Beijing Government's machinery for introducing foreign capital into that country.

As thing stand now, the yen-based private issue is likely to have a maturity of 15-20 years, with the interest rate set 0.2-0.3 per cent above the long-term prime rate in Japan which currently stands at 8.5 per cent. (There is possibility that the prime rate will be raised in November, bringing the interest rate on the Chinese bond above 9 per cent.)

China is expected to use the proceeds from the bond issue for settlement of industrial plant imports from Japan.

Nomura Securities Co., Ltd. will be the lead manager for the issue, and Bank of Tokyo will be the commissioned bank.

Last March, the China International Trust and Investment Corp., through Nomura Securities, applied with the Ministry of Finance to make a private bond issue. Approval had been held up because of uncertainties over China's industrial development programs and delays in working out arrangements for financial assistance with Japan and the United States.

Beijing and Tokyo came to terms on a financial package for China's industrial plant construction early in September, prompting the Ministry of Finance to issue a go-ahead for the bond issue.

China will be the second Communist nation to issue yen bonds in Japan after Yugoslavia which came to the Tokyo market in 1978 and 1979.

Fujian Province's International Trust and Investment Corp. also is studying flotation of yen-based bonds. Financial sources say other provinces of China are likely to move to issue yen-based bonds. They also cite strong possibility that the Chinese Government will make use of the Eurobond and Swiss franc bond markets once the issuing environment becomes appropriate.

CSO: 4020/17

CONSTRUCTION

PLANTS REPORTED ACCEPTING JAPANESE DELIVERIES UNDER SUSPENDED CONTRACTS

Tokyo THE DAILY YOMIURI in English 1 Sep 81 p 3

[Article by Swadesh De Roy]

[Text] The Chinese may have suspended many of their plant orders with the Japanese, but they are accepting deliveries the Japanese are making on the dead contracts. This can happen only between China and Japan, the two countries prepared to do anything to accommodate each other by going far out of their way. Theirs, after all, is a unique relationship.

Chinese acceptance of Japanese shipments of plants for projects canceled is a quiet development, so far unpublicized. It has, however, created an unorthodox situation in Sino-Japanese trade and economic cooperation. Apparently there is no formal agreement on this beyond an informal understanding.

To an outsider it will appear as though the Japanese are forcing these plants on the Chinese, who on their part are accepting them without changing their position that they have canceled orders for the shipments being received. The Chinese acceptance of the shipments also does not constitute any agreement to compensate losses the Japanese claim to have suffered following unilateral cancellation of plant orders.

But then who is paying the suppliers? According to my information, not the Chinese, not immediately that is. It should be recalled they canceled the orders because they had suspended the projects for which the plants and equipment now being shipped were needed; and they suspended the projects because they did not have enough cash. Nothing has changed since in that Chinese position. But the Chinese have also said the projects have merely been put off and it appears the Japanese supplies are taking the Chinese at their word, literally. What follows from this is that the Chinese seem to be saying that if the suppliers at their end can arrange to be paid the shipments will be accepted at their end--stored unopened for one or two years or till the projects are revived--and till then the plants and equipment will remain in Chinese custody. Does this bind the Chinese in any way? Yes, but only morally; and that is all that the Japanese wanted.

The Japanese, meanwhile, are doing everything to get their government and banks to help the Chinese by arranging aid and supplier's credit. And the Chinese agreeing to be morally bound are taking the fullest advantage of the situation, bargaining harder than ever for terms. They have nothing to lose, with crates of plant already in their warehouses at nobody quite knows whose risk. The Japanese suppliers in their eagerness to be paid are using all their influence to obtain government accommodation for the Chinese. And the Chinese are close to getting some ¥300 billion in credit on various terms, thanks to the businessmen's lobbying.

That may solve 90 percent of the financing problem in respect of these shipments. The Chinese have raised a fine legal point. They insist on holding up 10 percent of the payment which under the terms of old contracts will be payable only after plant certification that in this case should not be expected until the Chinese open the crates. But they will not open the shipment until they decide to revive the suspended projects. The Japanese suppliers do not agree. Their plea is this 10 percent of payment normally withheld as "retention money" pending certification includes technicians' fee and their own profit. What the Chinese say to this is logically solid. Technicians' services will not be called for until the crates are opened, plants inspected, installed, and certified. Until then there should be no question of paying the retained 10 percent.

There is nothing the Japanese can do. They have, after all, volunteered into this situation. The Chinese do not feel to be under any legal obligation. They, indeed, had placed some orders. But after having canceled them they no longer are bound by them. The present shipments are not their idea. Just because the Japanese have on their own chosen to make deliveries the Chinese are not going to revise their schedules for the suspended projects.

The Japanese in their last-ditch bid to move the Chinese from their rigid position are now telling the Chinese the equipment in crates unopened for even a year may get rusted and damaged. But the Chinese are unmoved. If the plants corrode they will not pass certification test. And that will be a suppliers' liability.

The Japanese obviously are in a painful bind. But they believe the Chinese ultimately will come to free them from the trap they did not set. The Japanese entrapped themselves to evoke Chinese sympathies they desperately needed to ensure that the suspended projects when revived come back to them. What they are doing now is demonstrating their desperation and suffering. That is the way of Sino-Japanese business.

CSO: 4020/247

CONSTRUCTION

CHINA ACCEPTS JAPANESE PLAN ON EXTENDING PLANT HELP

Tokyo THE JAPAN ECONOMIC JOURNAL in English 15 Sep 81 pp 1, 4

[Text] Chinese Vice Premier Gu Mu declared last week that China had "agreed in principle" to accept the Japanese proposal to render soft loans of about ¥300 billion to revive cancelled industrial plant contracts with Japan.

Gu's declaration came when he met with Susumu Nikaido, Chairman of the Executive Council of the ruling Liberal Democratic Party, in the Great People's Hall in Beijing.

At the meeting, Nikaido first made the proposal by saying, "the amount (¥300 billion) was the best the Japanese Government could do under acute fiscal restraint." In reply, Gu said, after commending the Japanese efforts, "China agrees in principle with the Japanese proposal," adding that further talks might be necessary to work out interest rates and other details in the future. Gu also said, "China will never impose its demands on anyone as a moral principle."

China's conditioned acceptance has put a virtual end to the lingering Japan-China plant controversy which arose when the second phase of Baoshan Steel Mill's construction works was suddenly suspended last fall, followed by the cancellation of China's industrial plant contracts with Japan. Japan has been asked by China to give loans to help revive those contracts.

The proposal of the Japanese Government included the following:

—Commodity loans, changed from yen-denominated loans, will total ¥120-130 billion, up ¥20-30 billion from those originally planned.

—Suppliers' credit for deferred payments for plant equipment, to be provided by the Export-Import Bank of Japan, will amount to about ¥100 billion.

—The rest of ¥70 billion will be procured in yen-denominated syndicated loans from a consortium of private financial institutions.

In hammering out this proposal, the ministries have been at odds over what to do with the Exim Bank's bank loans. The Foreign Ministry, the Ministry of International Trade & Industry and the Economic Planning Agency have strongly favored the bank loans, saying those loans are "strongly desired by China." But the Finance Ministry and the Exim Bank are in strong opposition to the idea because they say "new additional bank loans of about ¥300 billion are needed in 1985 for China's development of natural resources and any other loans cannot be allowed." After much bickering, the ministries have come up with the proposal to adopt untied global loans, but the Exim Bank is opposed to the idea, saying the global loans are for general machinery, not directly connected to plant construction, and are tantamount to governmental assistance which the Exim Bank has no role in. Thus, the Government has, at the end, decided to drop the idea of Exim Bank's bank loans.

Regarding other proposed loans, commodity loans will carry an annual interest rate of 3 per cent, to be repaid over 30 years, with a 10-year grace period. An interest rate of suppliers credit will be around 7.5 per cent annually, following guidelines of the Organization for Economic Cooperation and Development and that of private loans a little higher than the long-term prime rate, now running at 8.5 per cent. Officials said the ¥300 billion loans will be for the first phase of constructions for the Baoshan Steel Mill and the petrochemical plant in Daqing.

Observers said since private loans are including in the proposal, China is expected to complain about "high interest rates" and the Government is strongly urged to work out the details with Chinese officials, possibly inviting Vice-Premier Gu to Japan at an earlier date to clear up the differences on the matter.

CSO: 4020/17

FOREIGN TRADE

FIRST JAPAN-CHINA HOTEL TO BE BUILT IN FUZHOU

Tokyo THE JAPAN ECONOMIC JOURNAL in English 1 Sep 81 p 14

[Text]

A Tokyo company will build a hotel in China's Fujian Province as the first Sino-Japanese joint hotel venture.

Investment & Development Corp., a firm specializing in trade with China established two years ago, recently set up a new company aimed at hotel construction and management in the province jointly with the Fuzhou Branch of the Fujian Investment Enterprises Corporation. The Fuzhou Grand Hotel is 51 per cent owned by the Chinese corporation and 49 per cent by the Japanese firm.

The joint venture will construct an 18-story hotel with 450 rooms which is scheduled to open in the fall of 1983. Erected close to Fuzhou City's civic center, the hotel will be provided with Japanese- and Chinese-style gardens, swimming pool, shopping centers and rental offices.

R. Kitadai Architect & Associates, Inc., a medium-sized design company of Tokyo, is now directing the Chinese to draw up a basic design.

With the exception of the site provided by the Chinese, the total cost, including construction and management, is put at \$24 million (about ¥5.5 billion). Of the total, \$15 million will be borrowed from European banking establishments and payment will be completed by the joint company, according to Investment & Development.

While the Chinese will be basically responsible for design and construction, elevators, air conditioners, raw materials and equipment will be exported from Japan.

China is emphasizing industrial development in Fujian and Guangdong Provinces, designating the two areas as special economic zones. The number of foreign businessmen visiting there is sharply increasing. Japan's Hitachi, Ltd., for instance, is operating a TV set assembly plant in Fujian jointly with the Chinese.

CSO: 4020/17

FOREIGN TRADE

CHINA SEEKS AID TO BUILD INTERNATIONAL TELECOMMUNICATIONS CENTER

Tokyo THE JAPAN ECONOMIC JOURNAL in English 22 Sep 81 p 8

[Text]

The Chinese Government plans to build a specialized international telecommunications center in Shanghai with Japan's financial and technological assistance, it was learned recently.

According to informed sources, China feels it urgently necessary to consolidate its international telecommunications setup for promoting international trade.

Specifically, China hopes to set up an international telecommunications center in Beijing and Shanghai. Although the Beijing center construction project is progressing smoothly, the Chinese Government is having difficulty in procuring an equivalent of ¥10-20 billion funds for the Shanghai international telecommunications center.

Possibility is strong that China will seek credits either from the Overseas Economic Cooperation Fund or the Export-Import Bank of Japan. Initially, China will seek some ¥3-4 billion in credits for purchases of stored program controlled (SPC) exchanges to be installed at the Shanghai center.

The Japanese Government reportedly is ready to offer cooperation to the project.

CSO: 4020/17

FOREIGN TRADE

FUJITSU FANUC WILL PROVIDE CHINA WITH HIGH TECHNOLOGY

Tokyo THE JAPAN ECONOMIC JOURNAL in English 22 Sep 81 p 7

[Text]

Fujitsu Fanuc Ltd. has reached an agreement with an agency of China's First Ministry of Machine-Building to provide technology on computerized numerical control, sources revealed recently.

The sources said Fujitsu Fanuc will grant a license to the China Machine-Building International Corp. to produce and sell wire-cutting electro discharge machines over the next seven years.

Under the accord, the Beijing corporation will produce the medium-sized, standard type Fanuc Tape Cut Model H, using designs, production expertise, related parts and components supplied by the Japanese licensor. The Model H is one of the four electro discharge machines now being produced by Fujitsu Fanuc at a monthly rate of 50 units.

The Chinese agency will pay the Japanese licensor royalties equivalent to some 3 per cent of domestic sales.

Before operations start in China, Fujitsu Fanuc will invite Chinese workers to Japan for technological training.

A machine tool equipped with the CNC device can automatically operate for 24 hours once it has an input of data on processing work pieces.

The CNC apparatus is well fitted for processing materials with complicated shapes, such as aircraft engine parts. It can also turn out metal molds used for model changes of TV sets, stereo components and automobiles.

The most up-to-date, computerized numerical control know-how will thus play a vital role in promoting China's light industries. It is the first time for such Japanese electromechanic equipment to be provided to China, though production expertise so far has been supplied to the country for application to mechanical lathes and other general-purpose machine tools.

CSO: 4020/17

FOREIGN TRADE

MITSUI SHIFTS CHINA TRADE EMPHASIS TO DAILY PRODUCTS

Tokyo THE JAPAN ECONOMIC JOURNAL in English 22 Sep 81 p 4

[Text]

Mitsui & Co., Ltd., a leading Japanese trading company, has decided to shift its emphasis in export to China to commodities for daily use from heavy and chemical industrial products, including industrial plants, and to deal with Chinese products in triangular trade.

Because of the economic readjustment program and increasing decentralization of authority in China, Japanese trading companies are destined to suffer a setback in trade with China if they continue to depend on heavy industrial products.

The trading firm thus has instructed its branch offices throughout Japan to check if there are light industrial local products that can be exported to China, Chinese products marketable in Japan, and Japanese manufacturers interested in exporting their products to China.

Its departments in charge of food, chemicals and textile products are scheduled to send teams to China to study demand trends in the country and find out if there are Chinese products that can be sold in Japan.

Meanwhile, an executive of Mitsui will attend a ceremony marking the completion of integrated production facilities for cashmere products in Dongsheng, Mongolia, on October 1, as Mitsui concluded an export contract for the equipment for ¥4 billion in May, 1979.

Inner Mongolia can meet a third of the world's demand for cashmere which amounts to 3,000 tons a year. The new factory in Inner Mongolia will process 500 tons of cashmere annually under the technical assistance of Unitika Ltd. and export it in the form of raw wool or knitwear products.

Mitsui will not only export such products to Japan but also to Western Europe in the triangular trade.

The company at present stations resident officials in Beijing, Dalian, Tianjin, Shanghai, Guangzhou and is expected to open new offices in Quingdao, Fuzhou and Nanjing. The company upgraded the Beijing representative office to a branch to have it supervise other offices in China.

CSO: 4020/17

FOREIGN TRADE

TRADE WITH CHINA SLUMPS; EXPORT IN JUNE FELL BY ABOUT $100 MILLION

Tokyo THE JAPAN ECONOMIC JOURNAL in English 4 Aug 81 p 4

[Text] Japan's trade with China is beginning to slump, with Japanese exports in June scoring a monthly fall of about $100 million, Japan External Trade Organization revealed last week.

JETRO said that both Japanese exports and imports in the first half (January-June) of 1981 expanded favorably.

Compared to a year ago, it said that exports rose by 37 per cent to a value of about $2.8 billion and imports by 21 per cent to $2.4 billion, both on a customs-clearance basis.

This is because shipments to China of machinery and plants whose contracts were signed in the past before Beijing's economic adjustment steps progressed smoothly.

However, with the advent of June, exports registered a monthly decrease of about $100 million. This indicated that China's economic adjustment have begun to take effect.

JETRO thus figured that while there was possibility of Japan-China export-import trade in the calendar year attaining the $10 billion level for the first time, exports would be the same as that for last year, and imports would be limited to a yearly gain of around 10 per cent.

It predicted that a dulling in Japan-China trading would set in for the first time since the high trend which started in the last half of the 1970s.

The semi-governmental trade organization said that Japanese exports to China in the first half reached $2,795 million and imports $2,371 million for an overall trade of $5,166 million, up 29 per cent from the same time of last year. For a half-year period, this was the largest after that for the last half of 1980.

Its share in the total value of Japan's export-import trade as to exports ran 3.8 per cent, or fourth after the U.S., West Germany and the Republic of Korea, and 3.3 per cent as to imports, or sixth after the U.S., Saudi Arabia, Indonesia, United Arab Emirates and Australia. In other words, the share of trading with China went up from last year's 7th place both as to exports and imports.

Exports of machinery-plants reached $1,467 million, accounting for nearly half of the total exports and scoring a 79 per cent gain over a year ago. Exports of generators rose by 3.6-fold. The growths of transport-related machinery exports also were conspicuous. Motorcycles grew 26-fold over a year ago, passenger cars by 3.4-fold and automotive transport vehicles by 1.9-fold.

JETRO noted also the sharp gains in consumer goods exports — fibers-textile products by 92.3 per cent and black & white television sets by 2.7-fold. On the other hand, it said that exports of steel, which had ranked after machines as the biggest export commodity, showed a 5 per cent decline to $653 million.

Meantime, imports of crude oil reached $1,048 million (up 27 per cent), and coal imports grew by 81 per cent to a value of $78 million. Imports of fibers-textile products fell by 4 per cent to $653 million.

As to trading volume in entire 1981, JETRO felt that exports would remain unchanged from the preceding year at about $5.1-5.4 billion, while imports would chalk up an about 10 per cent gain to $4.9 billion.

It based its forecast on the following factors:

—Exports in June showed monthly decline of $120 million.

—Orders for machinery-plants which had led exports will fall sharply, and export shipments for goods contracted before China's economic adjustment steps will terminate at the start of autumn.

—Not much hope can be pinned on a recovery of steel and ship exports.

CSO: 4020/17

FOREIGN TRADE

BRIEFS

PRC,JAPAN FERTILIZER EXPORTS--Tokyo, 21 Sep (JIJI PRESS)--Japan and China signed an agreement in Beijing (Peking) Monday on chemical fertilizer exports to that country in the first half of the 1981 fertilizer year (July-December). Under the accord, Japan will export 150,000 tons of ammonium sulfate and 380,000 tons of urea, both unchanged from the previous half-year period. Shipments will be made from this month to January next year. Export prices of ammonium sulfate and urea have been lowered by 10 percent each from the previous period, reflecting the easing demand-supply situation of nitrogenous fertilizers. The total export value is estimated at 106.7 million dollars. [Text] [OW211445 Tokyo JIJI in English 1419 GMT 21 Sep 81]

CSO: 4020/3 END