

efficiently, the benefit to China could be greatly enhanced if its application could be adapted to the development of many other projects. How best to acquire and spread these skills is perhaps central to assessing the utility of foreign equity participation.

4.3.1 Discussion of Compensation Trade in Relation to Equity Investment

During the discussions held in October, 1985 with Minister Qian and her delegation, the Chinese side indicated that the Ministry is considering compensation trade as a means of raising foreign exchange to support some of its developments. The question was raised as to whether such an approach would be applicable to repayment of foreign equity participation.

It has not been possible at this preliminary stage to examine the impact of introducing compensation trade into the financial arrangements. However, some general observations may be offered on this concept.

In principle, compensation trade could take the form of a counter-purchase of Chinese goods, either manufactured or agricultural products or resource materials, which the foreign partner would be expected to market outside of China. The net proceeds from the sale of such goods could represent some part of the foreign exchange required to retire the foreign equity (or other debt obligation).

Compensation trade introduces additional risk to the foreign investor (or lender) and, even if acceptable, would undoubtedly increase the cost to China of foreign financing provided either through equity or borrowings. It seems unlikely, although not impossible, that the foreign equity participants would include marketing skills appropriate to handling compensation trade. It is more likely that disposal of counter trade goods would involve one or more specialized trading houses whose fees would have to be factored into the cost of the transaction. It is probable that the Chinese partner of the joint-venture enterprise