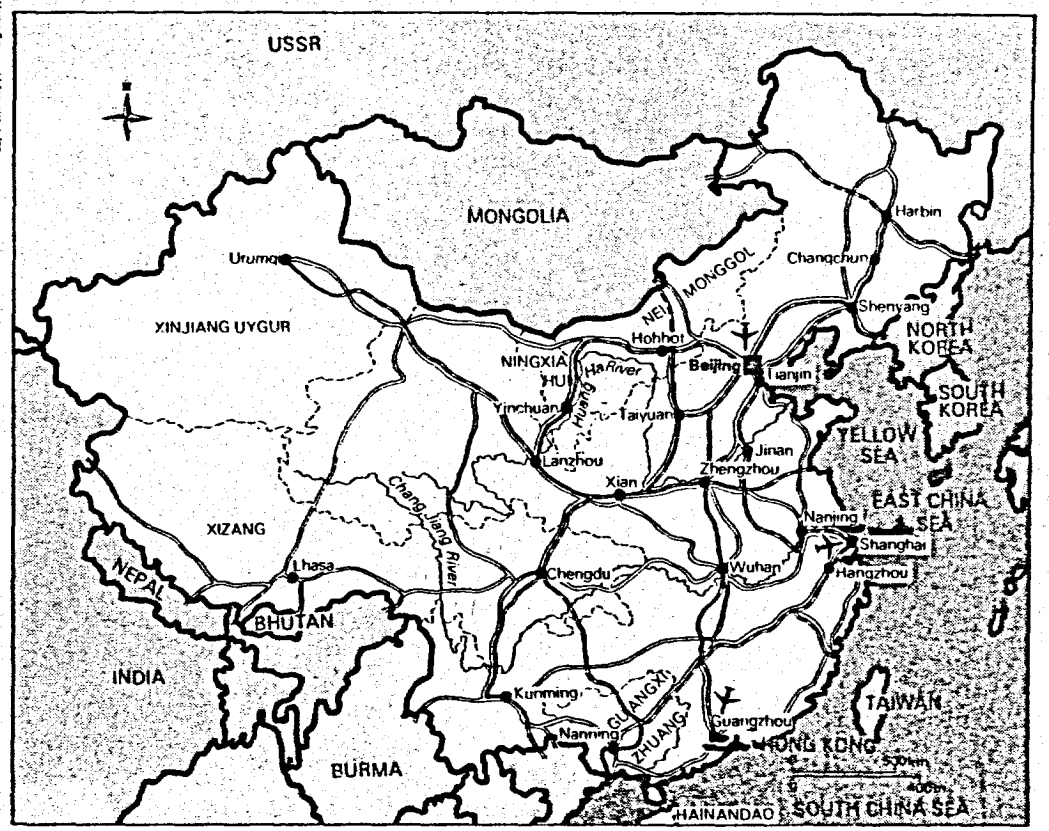
THE AGRI-FOOD MARKET IN CHINA: HOW CAN WE IMPROVE CANADA'S EXPORT PERFORMANCE?



THE INTERDEPARTMENTAL COMMITTEE FOR INTERNATIONAL AGRI-FOOD TRADE DEVELOPMENT

EXTERNAL AFFAIRS
AGRICULTURE CANADA
REGIONAL INDUSTRIAL EXPANSION
CANADIAN INTERNATIONAL DEVELOPMENT AGENCY

MARKET DEVELOPMENT STRATEGY FOR THE AGRI-FOOD SECTOR IN CHINA

The Interdepartmental Committee
for International Agri-Food Trade Development

October 1987

FORWARD

This is the first edition of "The Agri-Food Market in China: How Can We Improve Canada's Export Performance?" This edition has been prepared under the auspices of the Interdepartmental Committee for International Agri-Food Trade Development. The Committee, which includes representatives from the Departments of External Affairs and Agriculture Canada, was created in 1985 in order to co-ordinate federal international market development activities for the agriculture sector. Mr. Dennis Browne, Director General, Agriculture, Fisheries and Food Products Bureau, External Affairs, was Chairman of the Interdepartmental Committee during preparation of this edition.

The document incorporates the views and priorities of players involves or interested in the agri-food sector in China. Comments resulting from consultations with provinces as well as private agri-food business executives have been incorporated.

The market development plan identifies priority sectors for the Canadian agri-trade sector in China, and proposes to exploit related export or investment opportunities in this important market.

This plan has been designed to respond to short and medium term objectives of the Canadian agri-trade sector. It reflects the situation and priorities that were in place at the time it was prepared. Our intention is to maintain a market development plan that continues to be relevant as a guide to government actions in support of private sector export marketing efforts. Thus the Committee will review the document periodically and update it in consultation with all interested parties.

J.E.G. Gibson
Chairman
The Interdepartmental
Committee for Agri-Trade
Development

Agriculture, Fisheries, and Food Products Bureau
Department of External Affairs
October, 1987

AVANT-PROPOS

Voici la première édition de la publication "Le marché agro-alimentaire en Chine: Comment pouvons-nous améliorer la performance des exportations canadiennes?" Ce document a été établi sous les auspices du Comité interministériel de l'expansion du commerce international des produits agricoles, qui comprend des représentants du ministère des Affaires extérieures et d'Agriculture Canada et a été créé en 1986 afin de coordonner les activités fédérales en matière de développement des marchés internationaux pour le secteur agro-alimentaire. M. Dennis Browne, ancien directeur général de l'Agriculture, des Pêches et des Produits alimentaires au ministère des Affaires extérieures, était président du Comité interministériel durant la préparation de cette édition.

Ce document reflète les points de vue et les priorités des intervenants dans le secteur agro-alimentaire chinois. On a aussi tenu compte des commentaires des participants aux consultations qui ont eu lieu avec les provinces et les représentants du secteur privé.

Le plan de développement des marchés définit des secteurs prioritaires pour les ventes de produits agro-alimentaires canadiens en Chine, et formule des propositions pour exploiter les possibilités d'exportation ou d'investissement sur cet important marché.

Ce plan a été conçu en fonction des objectifs à court ou à long terme du secteur agro-alimentaire canadien. Il reflète la situation et les priorités qui existaient au moment où il a été établi. Notre intention est qu'il garde son actualité comme guide des mesures gouvernementales qui appuient les efforts de mise en marché du secteur privé. Le

comité reverra le document à intervalles réguliers et le mettra à jour avec l'avis de toutes les parties intéressées.

J.E.G. Gibson
Président
Comité interministériel
de l'expansion du
commerce international
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Direction générale de l'agriculture, des pêches et des produits alimentaires
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horticulture/processed
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Executive Summary

Introduction

In April 1986, China's Peoples Congress approved the Seventh Five-Year Plan (1986-1990) for all sectors including the agriculture sector. This plan calls for substantial growth in agricultural production throughout China. The planned growth, however, will increase at a lower rate (4%) compared to the rate achieved during the previous Five Year-Plan (7.8%).

According to the plan, production and consumption of grains, oil seeds, meat, milk and eggs is to increase sharply. This will require introducing major changes and improvements in farming and management techniques in China in the next five years. The farmers will be encouraged to

1. increase productivity of pasture and farm land

2. increase oilseeds and feed grain production

3. utilize high quality breeding livestock (swine/cattle) and poultry and to apply modern breeding and management techniques

4. improve crop handling, distribution and storage capability.

In addition, the Chinese intend to establish integrated units combining livestock breeding and production, feed mills, dairy and meat processing near the large-medium size urban centers.

Opportunities for Canada

At present, cereal grains continue to be the largest component of Canada's trade with China with wheat, barley and wheat flour accounting for approximately 36.4% of total exports and 96.20%

of total agriculture exports in 1985. Canada's exports of non-grain agriculture products in 1985 were valued at approximately $18.3 million.

As a result of the signing of the plant and animal health protocols with China, it is expected that Canada's share of the market for products other than grains and oil seeds will increase significantly.

The Chinese recognize Canada's importance as a leader in agriculture research, technology and management. They also recognize that Canada's expertise could contribute to their modernization plans. In the meantime, a history of a long established commercial and political relationship exists between Canada and China. All of these considerations will undoubtedly help Canadian exporters increase their market share for products other than cereal grains, which include breeding livestock (dairy, beef and swine), semen, A.I. technology and equipment, poultry breeding stock, forage seeds, hybrid seed corn, seed potatoes, and feed micro-components. Other products include oil seed processing equipment (deodorizers) and technology, grain handling, cleaning and storage equipment, dairy processing, feed mixing equipment and animal slaughtering and meat packing equipment.

Many of the presently active players, numbered approximately fifty Canadian exporters (see Appendix I), have already identified areas for their business interests. Among these companies, eight are pursuing opportunities in breeding cattle (dairy and beef sales), swine breeding (6), poultry breeding stocks and equipment (3), forage seed and seed cleaning equipment (6), veterinary pharmaceuticals (2), grain storage and handling equipment (7), feed and feed mills (5), vegetable oil processing (1), beer and malting house technology (3), dairy equipment (3), bakery equipment (2), meat processing (3),

slaughter house equipment (1) and consulting services (2). In addition there are three Canadian food importers and five Canadian cooperatives exploring business opportunities in the Chinese market.

This paper presents a trade development strategy for the agricultural sector in China. This strategy takes advantage of the above considerations and current Canadian initiatives in China. It also considers the special China-Canada political and commercial relationship as well as the keen interest demonstrated by Canadian agriculture exporters in the Chinese market. The strategy also recognizes the importance of technical assistance and aid-trade mechanism as market development tools. The balance of trade between the two countries is also considered in formulating this strategy.

The Chinese, constrained by declining foreign exchange resources, require that exporters contribute towards financing their exports directly, or indirectly through countertrade or joint venture projects. This requirement is identified where appropriate and suggestions are made referring to facilities available at the Export Development Corporation (EDC) (e.g. insurance for bulk agriculture commodities, and the special financing package of blended EDC credit line which was announced during the Prime Minister's visit to China in 1986, details of which became public in early 1987).

Canada's Future Direction in China

In developing a strategy for the agriculture sector in China, it must be recognized that the market is difficult requiring long term commitment and significant investment of resources to achieve meaningful trade benefits. Both industry and government must take a long term view of the market in China.

The numerous exchanges and high level visits which have taken place since 1978 between Canada and China had proven to be beneficial to both sides, especially with regards to identification of Chinese market needs and matching these needs with Canadian agriculture industry capabilities. This phase of extensive exploration and technical exchange, however, should now be followed by a more targeted and focussed phase of commercial involvement - a phase in which successful and capable exporters are given full support by the government at both the federal and provincial levels.

The technical assistance programs provided through various Joint Agriculture Committee (JAC) and CIDA activities and DEA market development missions and programs should continue. Officials undertaking these activities should ensure that they are structured to maximize their potential trade benefits. One way to do this, for example, would be through increasing involvement and input of the private sector in most activities. The technical programs should emphasize practical management methods or should be linked to commercial objectives. Future programs should result in enhanced communications with potential buyers and better identification of the real decision makers. New technical programs should emphasize practical management methods and should be linked to commercial objectives. In addition, more programs of technical assistance should be considered in the future to further promote products and services where the Canadian industry has a competitive edge.

The Strategy

The priority sectors considered in this strategy are:

Grains and oilseeds

Livestock (dairy breeding cattle, semen and embyro, swine and poultry sub-sectors)

Seeds

Grain and seed handling, cleaning and storage equipment.

Fertilizer (potash)

Food processing (small and medium scale bakeries, animal slaughtering and meat processing equipment)

Feedstuffs (micro-components, premix technology, mixing equipment and joint venture turnkey feed plants)

Canada's objectives in each sector/sub-sector are:

In the grain sector to maintain market share and ensure that the Chinese continue to regard Canada as the best source for milling wheat and malting barley.

In the dairy cattle sub-sector, to ensure that the Chinese become fully aware of Canadian breed quality and to assist them in achieving maximum potential from imported Canadian breeding cattle, semen and embryos. In this sector the industry estimates potential sales to China could reach 1500 head of breeding cattle and $1.25 million worth of semen and embryos annually by 1990.

In the Swine sector, Canada's efforts should focus on convincing the Chinese that intensive production is the best way to improve their swine production. Canadian success in this sub-sector, however, will largely depend on Chinese success in introducing/expanding intensive swine production on a large scale over the next five

years. The use of Canadian breeding stock by the peasants should also be encouraged. The industry estimates that China could potentially import 2000-3000 head annually from Canada by 1990.

In the poultry sub-sector, Canada's objective should be to expand the distribution base for Canadian breeding stock so as to include all Chinese provinces where poultry industry is given high priority.

In the seed sector, it should be noted that the Chinese, as outlined in the 7th Five-Year Plan, intend to increase forage production and improve corn production through utilization of high quality inputs such as forage seeds and hybrid seed corn. Therefore, increasing their awareness about Canada's seed industry capabilities could help in achieving potential export sales objectives.

In the food processing sector, realizing the relatively limited Canadian export capability in certain sub-sectors, Canada's market development objective will have to be directed to enhance prospects for exports of the following products in which Canada appears to have a competitive edge (listed in order of importance).

Sub-sector 1: Baking equipment; small and medium scal bakeries.

Sub-sector 2: Animal slaughterhouse and meat packing equipment.

Sub-sector 3: Grain/seed cleaning, handling and storage equipment.

Sub-sector 4: Controlled environment and storage equipment.

Sub-sector 5: Oilseed processing equipment (deodorizer)/technology.

Sub-sector 6: Dairy processing equipment.

Sub-sector 7: Potato planting, harvesting, and storage equipment.

In the feedstuff sector, Canada's objective is to facilitate introduction of modern feed technology techniques into China and to convince Chinese decision makers that adoption of Canadian technology know how and the use of Canadian made compound feed mixing plants can significantly reduce cost of livestock production.

In view of the complexity of the agriculture sector and the diverse interests of the business community, most of the proposed initiatives and activities have been directed at a few specific market sectors of interest to Canada. It has been recognized howevér that cross sectoral strategy initiatives, i.e. ministerial and multi-commodity industry missions are also considered to be extremely effective and indeed essential to the conduct of a comprehensive market development campaign for the agriculture sector in China.

The proposed strategy outlined in this report may appear at the first instance as a modest effort by Canada especially since China is generally perceived to be a large market with unlimited opportunities. However, the reality remains, that market exploration of China, a country with vast population, varied land resources and insatiable appetite for acquiring modern technology, could quickly

deplete available resources to assist companies who need it the most. The real commercial opportunities, however, will only be realized by focussing and offering full support to those who have already invested time and energy in the market but have yet to realize any commercial rewards.

RÉSUMÉ

Introduction

En avril 1986, l'Assemblée populaire nationale de Chine a approuvé le 7e plan quinquennal du pays (1986-1990) pour tous les secteurs, dont celui de l'agriculture. Ce plan demande une assez forte croissance de la production agricole dans toute la Chine. La croissance prévue, toutefois, augmentera à un taux moindre (4%) que celui atteint durant le plan quinquennal précédent (4,8%).

Selon le nouveau plan, la production et la consommation de céréales, de graines oléagineuses, de viande, de lait et d'oeufs doivent connaître une augmentation très marquée. Cela exigera d'importants changements et des améliorations dans les techniques de culture et de gestion de la Chine au cours des cinq prochaines années. Les agriculteurs serontencouragés à:

1. accroître la productivité des pâturages et des terres cultivées

2. accroître la production des graines oléagineuses et des céréales fourragères

3. utiliser du bétail reproducteur (porcs/bovins) et de la volaille reproductrice de haute qualité et appliquer des techniques modernes d'élevage et de gestion

4. améliorer la capacité de manutention, de distribution et de stockage des récoltes.

En outre, les Chinois se proposent d'établir des unités intégrées combinant l'élevage du bétail, des minoteries de provende, ainsi que la transformation des produits laitiers et la préparation des viandes, à proximité des grands ou moyens centres urbains.

Débouchés pour le Canada

À l'heure actuelle, les céréales continuent d'être le principal élément du commerce du Canada avec la Chine, le blé, l'orge et la farine de blé comptant pour environ 36,4% des exportations totales et 96,20% des exportations totales de produits agricoles en 1985. Les exportations canadiennes de produits agricoles autres que les céréales en 1985 étaient évaluées à environ 18,3 millions $.

Des protocoles relatifs à la protection des végétaux et à l'hygiène animale ayant été signés avec la Chine, on s'attend à ce que la part canadienne du marché des produits autres que les céréales et les graines oléagineuses augmente sensiblement.

La Chine reconnaît l'importance du Canada en tant que chef de file dans le domaine de la recherche, de la technologie et de la gestion agricoles. Elle reconnaît aussi le rôle que pourraient jouer les compétences du Canada pour ses plans de modernisation. Dans l'intervalle, les liens entre les deux pays sont fondés sur les relations commerciales et politiques qui existent entre eux de longue date. Toutes ces considérations ne manqueront pas d'aider les exportateurs canadiens à accroître leur part du marché pour des produits autres que les céréales, c'est-à-dire le bétail reproducteur (bovins laitiers, boeufs et porcs), le sperme, la technologie et le matériel d'insémination artificielle, la volaille pour la reproduction, les graines fourragères, le maïs de semence hybride, les pommes de terre de semence, et les microcomposants d'aliments du bétail. Parmi les autres produits, citons le matériel et la technologie de transformation des graines oléagineuses (désodorisants), l'équipement de manutention, de nettoyage et de stockage des grains, l'équipement pour la transformation des produits laitiers, le mélange des aliments du bétail, ainsi que l'équipement d'abattage et de mise en conserve de la viande.

Beaucoup des intervenants actuels sur le marché chinois, soit environ cinquante exportateurs canadiens (voir annexe 1), ont déjà identifié des secteurs pour leurs intérêts commerciaux. Parmi ces entreprises, huit s'intéressent à des débouchés dans les secteurs suivants: bétail reproducteur (bovins laitiers et boeufs), élevage de porcs (six), volaille et matériel d'élevage de la volaille (3), graines fourragères et matériel de nettoyage des graines (6), produits pharmaceutiques vétérinaires (2), équipement de stockage et de manutention des grains (7), grains et minoteries de provende (5), transformation de l'huile végétale (1), technologie de la brasserie (3), équipement de production laitière (3), matériel de boulangerie (2), préparation des viandes (3), équipement d'abattoirs (1) et services d'expert-conseil (2). En outre, trois importateurs canadiens de produits alimentaires et cinq coopératives canadiennes recherchent des débouchés sur le marché chinois.

Ce document présente une stratégie d'expansion du commerce pour le secteur agricole en Chine. Cette stratégie s'appuie sur les considérations précitées et sur les initiatives canadiennes actuelles en Chine. Elle tient compte aussi des relations politiques et commerciales spéciales entre la Chine et le Canada, ainsi que du vif intérêt manifesté par les exportateurs canadiens de produits agricoles vis-à-vis du marché chinois. Elle reconnaît l'importance de l'assistance technique et des mécanismes d'aide commerciale comme instrument de développement des marchés. La balance du commerce entre les deux pays est aussi prise en considération dans la formulation de cette stratégie.

Sous la contrainte d'une baisse de leurs avoirs en devises étrangères, les Chinois exigent que les exportateurs contribuent au financement de leurs exportations d'une façon directe, ou indirectement par le biais du commerce de compensation ou de coentreprises. Cette exigence est définie comme il convient, et des propositions sont faites concernant les services offerts par la Société pour l'expansion des exportations (SEE) (par.ex. assurance pour les produits agricoles en vrac, et modalités spéciales de la ligne de crédit mixte de la SEE, programme de financement qui était annoncé au cours de la visite du Premier ministre en Chine en 1986 et dont les détails ont été rendus publics au début de 1987).

Orientations futures de l'activité commerciale du Canada en Chine

Quand on élabore une stratégie pour le secteur agricole en Chine, il faut reconnaître qu'il s'agit d'un marché difficile, qui exige un engagement à long terme et d'importants investissements de ressources pour obtenir d'intéressants avantages commerciaux. Tant l'industrie que le gouvernement doivent envisager le marché chinois dans une optique à long terme.

Les nombreux échanges et les visites de haut niveau qui ont eu lieu depuis 1978 entre le Canada et la Chine se sont révélés d'un grand avantage pour les parties, car ils ont permis notamment de cerner les besoins du marché chinois et d'y faire correspondre les capacités de l'industrie canadienne des produits agricoles. Toutefois, cette phase d'exploration poussée d'échanges techniques devrait être maintenant suivie d'une phase de participation commerciale mieux ciblée, dans laquelle les exportateurs compétents recevront un plein appui du gouvernement aux paliers fédéral et provincial.

Il convient de poursuivre le programme d'assistance technique mis en oeuvre par l'intermédiaire de divers comités mixtes de l'agriculture (CMA), ainsi que les activités de l'ACDI et les missions et programmes du MAE pour le développement des marchés. Il faudrait s'assurer que ces activités sont structurées de façon à maximiser leurs avantages commerciaux potentiels. À cette fin, par exemple, on devrait intensifier le rôle et l'apport du secteur privé dans la plupart des activités. Les programmes techniques devraient appliquer des méthodes de gestion pratiques ou être reliés à des objectifs commerciaux. Les futurs programmes devraient avoir comme résultat des communications améliorées avec les acheteurs éventuels et une meilleure identification des véritables décideurs. Il faudrait envisager en outre davantage de programmes d'assistance technique dans l'avenir afin de promouvoir les produits et les services qui donnent à l'industrie canadienne un avantage sur le plan de la concurrence.

La stratégie

Les secteurs considérés comme prioritaires dans cette stratégie sont:

les céréales et les graines oléagineuses

le bétail (bovins laitiers reproducteurs, sperme et embryons, porcs et volaille)

les semences

l'équipement de manutention, de nettoyage et de stockage des céréales et des graines

les engrais (potasse)

la transformation des aliments (petites et moyennes boulangeries, équipement pour abattoirs et préparation des viandes)

produits d'alimentation animale (microcomposants, technologie de pré-mélange, équipement de mélange et fabriques clés en mains d'aliments du bétail, réalisés en coentreprise)

Les objectifs du Canada dans chaque secteur/sous-secteur

Dans le secteur des céréales, maintenir la part du marché et faire en sorte que les Chinois continuent de voir en le Canada la meilleure source d'approvisionnement pour le blé de mouture et l'orge de brasserie.

Dans le sous-secteur des bovins laitiers, faire en sorte que les Chinois deviennent plus conscients de la qualité des races canadiennes et les aider à retirer le maximum d'avantages des ressources importées - bovins reproducteurs, sperme et embryons canadiens.

L'industrie estime que les ventes potentielles à la Chine pourraient atteindre chaque année, d'ici 1990, 1 500 têtes de bétail reproducteur et pour 1,25 million $ de sperme et d'embryons.

Dans le secteur du porc, le Canada devrait s'efforcer de convaincre les Chinois qu'une production intensive est le meilleur moyen d'améliorer leur production porcine. La réussite canadienne dans ce sous-secteur dépendra en grande mesure, toutefois, de la réussite des efforts chinois visant à introduire et à élargir la production intensive de porcs à une vaste échelle au cours des prochaines années. L'utilisation d'animaux reproducteurs canadiens par les paysans devrait aussi être encouragée. L'industrie estime que la Chine pourrait importer de 2 000 à 3 000 têtes chaque année du Canada d'ici 1990.

Dans le sous-secteur de la volaille, l'objectif du Canada devrait être élargir la base de distribution des animaux reproducteurs canadiens afin qu'elle s'étende à toutes les provinces chinoises où l'élevage de la volaille reçoit une forte priorité.

Dans le secteur des graines et semences, il est à noter que les Chinois, comme l'indique le 7e plan quinquennal, ontl'intention d'accroître la production fourragère et d'améliorer la production de maïs grâce à l'utilisation d'éléments de haute qualité, notamment les graines fourragères et le maïs de semence hybride. En leur faisant mieux connaître les capacités de l'industrie canadienne des graines, on pourrait donc mieux atteindre certains objectifs des ventes d'exportation.

Dans le secteur de la transformation des aliments, où la capacité d'exportation du Canada se trouve relativement limitée sur certains points, l'effort canadien de développement des marchés devra être axé sur de meilleures chances d'exportation pour les produits suivants qui semblent offrir au Canada un avantage concurrentiel (énumérés par ordre d'importance).

Sous-secteur 1:	équipement de boulangerie; petites et moyennes boulangeries
Sous-secteur 2:	équipement d'abattoirs et de mise en conserve des viandes.
Sous-secteur 3:	équipement de nettoyage, de manutention et de stockage des céréales et graines.
Sous-secteur 4:	matériel de milieu contrôlé et de stockage
Sous-secteur 5:	matériel/technologie de transformation des graines oléagineuses (désodorisants).
Sous-secteur 6:	équipement de transformation des produits laitiers.
Sous-secteur 7:	équipement de plantage, de récolte et de stockage de pommes de terre.

Dans le secteur des aliments pour le bétail, l'objectif du Canada doit être de faciliter l'introduction de techniques modernes en Chine et de convaincre les décideurs chinois que l'adoption du savoir faire technologique canadien et l'exploitation d'usines de mélange d'ingrédients de fabrication canadienne peut réduire sensiblement le coût de la production du bétail.

Étant donné la complexité du secteur agricole et les intérêts variés des milieux d'affaires, la plupart des initiatives et activités proposées ont visé quelques marchés précis offrant de l'intérêt pour le Canada. On a reconnu, toutefois, que des initiatives intersectorielles c'est-à-dire des missions ministérielles et des missions multiproduits du secteur privé se sont révélées extrêmement efficaces et même indispensables à la conduite d'une campagne générale de développement des marchés dans le secteur agricole chinois.

La stratégie exposée dans le présent rapport peut sembler de prime abord un effort modeste de la part du Canada, étant donné que l'on voit généralement dans la Chine un vaste marché aux possibilités sans limites. La réalité demeure toutefois, que l'exploration du marché de la Chine, pays de forte population, aux ressources terrestres variées et qui a un appétit insatiable d'acquisition de technologie moderne, pourrait épuiser rapidement les ressources dont on dispose pour aider les entreprises qui en ont le plus besoin. Les véritables débouchés commerciaux ne seront assurés, toutefois, que si l'on accorde la priorité et un plein appui à ceux qui ont déjà investi du temps et de l'argent sur le marché, mais qui ont encore à y réaliser des gains.

II Description

- Country Profile
- Demographic Data
- Economic Data

II Description

A. Country Profile

1. Basic Country Data

Official Name:	People's Republic of China
Capital:	Beijing
Topography:	Chiefly plateaus and river basins
Climate:	Sub-tropical south, arid northwest, monsoons in east
Principal crops:	Rice, millet, peanuts, tobacco, tea, pork, cotton, sugar, oil seeds and potatoes (the latter is regarded as vegetables in most of China).
Resources:	Petroleum, coal, hydro potential, tin, antimony, tungsten, fluorspar

2. Demographic Data

Official language:	Putonghua, based on Beijing (Mandarin) dialect
Ethnic groups:	Han Chinese (94%); Zhuang, Uygur, Hui, Yi, Tibetan, Miao, Manchu, Mongol, Buyi, Korean and approximately 40 others
Religions:	Officially atheist; Muslims, Buddhists, Lamaists, Taoists, Christians, folk religions.
Area:	9,56 million sq. km.
Population (1984):	1.04 billion
Population density:	106 people per sq. km.
Urbanization:	32%
Population growth rate (1978-1985):	1%

Life expectancy at birth (1982):		64 years
Infant mortality rate:		50 per 1,000 live births
Daily per capita calorie supply as percentage of requirement from domestic production (1982):		100%
Adult literacy rate:		75% +
Primary school enrolment:	boys	95%
	girls	82%

3. Economic Data

a. General Data

Percentage of labour force in:	agriculture	69%
	industry	19%
	services	12%
Percentage of popular under 15 (1983):		31.6%
Gross national product per capita (1983):		U.S. $300
GNP average annual growth rate (1960-1982):		4.4%
	(1980-1984):	9.8%
Inflation rate (1973-1983)		1.7%
1985		8.8%
External public debt as % of GNP		N.A.
Debt service as % of GNP:		N.A.

b. Trade

Principal exports:	Petroleum products, clothing and textiles, coal

Principal imports:	Foodstuffs, chemicals and related products, machinery and transport equipment
Principal trading partners:	Hong Kong, Japan, U.S., West Germany
Exports to Canada (1985):	Outerware, vegetables, nuts, oilseeds, cotton and mixed fibre fabrics, apparel and house furnishings, toys, aluminum ores, concentrates and scrap ($566.6 million)
Imports from Canada (1984):	wheat, flour, wood products, newsprint, copper, fertilizers, aluminum, mining machinery, office and communications equipment ($1,100.3 million)

B. POLITICAL/COMMERCIAL RELATIONS WITH CHINA

The increasing involvement of the People's Republic of China in contemporary world affairs during and following the Cultural Revolution is one of the most significant factors influencing international politics today. Establishing diplomatic relations with the People's Republic of China in 1970, our part in the assumption by Peking of China's seat in the United Nations, and the vigorous program of exchanges carried out over the past several years has been a contributing factor in the emergence of China from its earlier isolation.

Canada's contribution to China's decision to become a major and responsible actor in international affairs can be considered a distinctive and important accomplishment. A remarkable degree of confidence has been established between the two countries given the limits that history, geography and differing political viewpoints impose.

After 1960, China emerged as a major market for Canadian wheat despite opposition to sales to "Red China" in some quarters. Neither did contacts cease on a personal level, and the mystique of China continued to fascinate Canadians despite the lack of diplomatic relations at that time.

Establishment of Diplomatic Relations

Talks between Canada and China, which began in Stockholm in February 1969, culminated in the joint communiqué of October 13, 1970. The primary stumbling block during the twenty months of negotiations was the issue of Taiwan. As a result of the negotiations, the Canadian Government recognized the Government of the People's Republic of China, while on the status of Taiwan the communiqué read: "The Chinese Government reaffirms that Taiwan is an

inalienable part of the territory of the People's Republic of China. The Canadian Government takes note of this position of the Chinese Government". Canada's position was, and is, that the Canadian Government neither endorses nor challenges the Chinese Government's position regarding the sovereignty of Taiwan. This formula, or one similar to it, has been used since 1970 by many of the Countries which followed Canada's lead in establishing relations with Peking.

As a consequence of Canada's agreement to normalize relations with the PRC, diplomatic relations were severed with Taiwan, and all official contacts were terminated. The so-called "Republic of China" (Taiwan) continues to claim that it is the sole legal government of all China, but has suffered increasing diplomatic isolation since 1970. Though Canada has no official contacts with the regime on Taiwan, the Government encourages private trade and "people-to-people" contacts between Canadians and Taiwanese.

Trade Relations

Under a trade agreement signed in 1973, (extended every three-years since), Canada and China grant each other Most Favoured Nation trading status. In addition, an Economic Cooperation Protocol governing increased bilateral activity in a number of sectors including agriculture was signed in 1979 as an addendum to the trade agreement.

Commercial relations with China are facilitated by the annual Canada/China Joint Trade Committee, which meets alternately in Ottawa and Peking. Large numbers of commercial delegations are also exchanged. In 1984, a $2 billion line of Credit was established by Canada and in 1986, Canada announced the establishment of a $350 million concessional financing facility for China.

Beginning on a foundation of wheat sales, trade has grown substantially through the 1970's and in 1986 reached 1.666 billion.

There have been recurrent surpluses in Canada's favour: in 1985 exports to China amounted to $1.100 billion out of the above total. Exports to the PRC stabilized in 1986 due to a decline in the price of wheat although exports of end products rose by 100% to $305 million.

Textiles form the largest sector in China's exports to Canada, and since January 1, 1980 some other Chinese products have received General Preferential Tariff treatment. Wheat, mining machinery, minerals and metals, aircraft and wood products head the list of Canadian exports, while imports, besides textiles, include agricultural products, handicrafts and household furnishings.

Recently, Canadian marketing efforts have focused on China's drive to modernize, drawing in part on foreign technology and foreign credits. Private sector initiatives, in conjunction with ministerial level missions and other government supported activities, are part of a continuing effort to expand the commercial relationship between Canada and China. As a result, near-term opportunities for Canada in the Chinese market appear more promising than they have in recent years.

Development Assistance

Aid by the Canadian International Development Agency (CIDA) to China began in the winter of 1981-82 with the donation of $4 million worth of wheat to the relief of flood and drought-stricken areas of Hebei and Hubei provinces. Since that time, the Agency has negotiated a full program of development assistance concentrating on agriculture, forestry, energy, and human resources (including language training and sponsorship of university exchanges in fields such as medicine and management). Emphasis is being placed on training and technical assistance rather than capital programs, and the growth of expenditures is expected to be gradual. In May 1986, the Prime Minister announced that the government will double CIDA programs in China for the next five years (1987-1992).

Provincial Relations and Twinning

Canadian provinces have become increasingly involved in Canada-China relations over the past few years, often in conjunction with PRC provinces sharing similar economic and cultural interests. Between 1983 and 1986, not less than seven Premiers visited the PRC. Many provinces have signed various forms of twining agreements with Chinese provinces. The phenomenon of "twinning" or establishing close cooperation relations with an equivalent organization or government unit also exists below the provincial level, for example the linking of the two cities of Montreal and Shanghai, the provinces of Alberta and Heilongjiang and the understanding between Guelph and Beijing Agriculture Universities.

Agri-Food Sector

- State of Sector
- Primary Production
- Processing/Manufacturing (not available)

C. AGRI-FOOD SECTOR

1. State of Sector

Introduction

China is the third largest country in the world, being 9.6 million square kilometers in area. Agriculture continues to be China's main industry and understandably is very labour intensive. Currently, the agricultural sector employs over 75 percent of the working population but contributes less than 30 percent to national income. With great importance continuing to be attached to raising productivity, the total value of agricultural produce supplied or sold by farmers has doubled since 1978.

The productive arable areas of the country are concentrated in the eastern half, in the fertile plains and valleys of three separate river systems: the Yellow River, the Yangtze River and the Si River. Western China, consisting of the mountains and plateaux of the Tibetan Highlands and the desert basins and mountains of Xinjiang and Mongolia, accounts for half of the country's geographical area but only five percent of the total population.

Agricultural Structure

In 1950, the land belonging to the feudal nobility, landlords, monasteries, and other institutions was nationalized by the State. By the end of 1952, land reform, and by the end of 1958, the socialization (collectivization) of agriculture was declared to be complete: the peasant population had been organized into roughly 24,000 "communes", each consisting of a number of villages of 5,000-10,000 families. The commune system replaced the local government functions at the Xiang (village) level. Centralized

authority was discharged down through the production "brigade" to the production "team" of 10-50 families. Since 1958 modifications have been made in the commune system, including size reductions, such that presently there are 50,000 communes.

In December 1978, the Chinese Communist Party (CCP) policies regarding agriculture moved towards a mixed economy modeled on the successful markets of East Asia and West Europe. These rural reforms in the post-Mao era have meant the de-collectivization of agriculture, with further emphasis placed on the family as the essential economic unit and lifting controls to allow peasants freer access to markets. By any standard, the rural reforms have been quite successful. From 1978-1983, agricultural output value grew at an average annual rate of 7.9 percent compared to an average 3.2 percent rate from 1953 to 1978.

The first dramatic change in China since the country's liberation was the adoption of new sweeping reforms to improve the country's agricultural system in 1979. The adoption of a new foreign economic partnership with Western countries at the same time was equally dramatic and far reaching.

The Chinese leaders envisaged that success of an agricultural reform was crucial and indeed the basis for the regime's broader plans for logical positive changes in the economy. Agricultural reforms were considered essential in effecting urban reform.

The first steps directed at stimulating the rural economy came into effect in 1978-1979 when prices for many agricultural products were raised. At the same time, the government began to experiment with organizing the agricultural sector while introducing the "contract responsibility system". Following a trial period, the government finally introduced a national contract system based on individual households. These new changes signaled a return to

family-based farming and de-collectivization of agriculture in China. The role of the communes as units controlling agriculture production was abolished. However, state ownership of agricultural land continue unchanged.

As indicated earlier, responsibility for farming became the responsibility of households. As a result, the Chinese peasants enjoy new privileges and rights; they are guaranteed long-term (15 years) use of the land, they generally decide on what crop to grow, they manage their land independently.

However, the peasants are obliged to pay taxes and levies on their production. The peasants can sell their crops either in the open market or sell directly to the state (no compulsory sales to the state since 1985). The government may contract with peasants to purchase specified crops still in many cases on a quota basis.

Inputs into the Agriculture Sector

There is no doubt that the new reforms and the massive reorganization of agriculture production has effectively enhanced rural economic growth, with new pricing policies providing the greatest inducement. The changes were accompanied by increasing the level of agriculture inputs (e.g. fertilizers, pesticides, etc.) and a drive to effect a rapid diversification of crops.

Effects of the New Agricultural Reforms

As noted earlier, the new agricultural reforms produced dramatic results. Some analysts consider these effects to be unprecedented for China and for any developing country.

It is estimated that the productivity of agricultural labour had almost quadrupled in the early 1980's, in comparison to the previous 25 years. The agricultural output during the 6th Five-Year Plan rose over eight percent a year - more than double the long-term trend from 1953 to 1980. The annual per capita income in the rural regions increased by more than 13 %.

It is also important to note that the outstanding performance of the agricultural sector, helped increase overall growth of China's GNP during the 6th Five-Year Plan to an almost ten percent a year - more than double the long-term growth rate achieved since the 1950's.

Problems Associated with the New Reforms and Development in the Agriculture Sector

The massive development in the agricultural sector did not proceed smoothly, however. There is a lag in the development of an adequate infrastructure capable of handling the almost sudden increase in production. The public works and facilities, education and marketing services were unable to adequately handle the new surge in production. Equally alarming was the sudden increase in peasants' population, and the increased cost of government subsidies to maintain lower food prices in China's major urban cities. The other consensus is the decrease in grain crop acreage, resulting in lower grain production by as much as 10-20%.

The Future

The problems noted earlier, have been recognized by the Chinese authorities and efforts are being made by the government to over come them. In this regard, the government is seeking assistance from western countries including Canada to help improve and modernize the agriculture sector infrastructure.

It is expected, however, that agricultural output will continue to increase significantly. As projected in the 7th Five-Year plan, production is expected to continue to increase by an average of 4% annually.

China has achieved significant gains in agriculture production (8% annual growth rate vs. 5% target) since the late 1970's. During that period, it became the world's largest producer of wheat, rice, cotton and tobacco and the second largest producer of coarse grains and oilseeds .

This considerable achievement came largely as a result of:

1. Incentives to farmers (responsibility system) and rationalized pricing system

2. Improved management of production resource, (e.g., use of improved seeds and application of chemical fertilizers etc.)

3. New restructured government policy favoring the agriculture sector

4. Modernization efforts (e.g. equipment, planning, management etc.) and manpower specialization.

For the remainder of this decade, it is expected that despite government concerns crop production in China will gradually diversify away from grains towards cash crops and animal proteins which are more profitable and nutritionally valuable. This gradual shift will require instituting major changes and adjustments in industries related to emerging new crop pattern (e.g. oilseeds breeding, seed extraction and refining, feed ingredients blending, livestock breeding, meat packing, food processing, forage seeds cleaning etc.).

It is generally believed that while quick gains have been achieved in the agricultural sector in the last few years, productivity will continue to rise albeit at a slower rate in the near future. Among the many reasons given for this assessment are the constraints imposed by an inadequate infrastructure (e.g. storage, handling, distribution and quality control standards) and inefficient processing methods (e.g. oilseed crushing and refining, grain milling and baking, and feed mixing, etc.).

2. Primary Production

a) Grain Production

Rice is the staple food for as many as two-thirds of the population. It is the most important food crop in China, and has been so for centuries. At present rice accounts for about 40 percent of total grain production. China is by far the world's largest producer of this cereal, producing in excess of 110 million tonnes, and almost all of it is used for domestic consumption.

Wheat is the second most important cereal crop. It is cultivated throughout the country, but the main centre of production is the North China Plain. Wheat is the staple food in major parts of North and North East China.

In 1985, total grain production was down from the 1984 record of over 407 million tonnes, at 382 million tonnes. Early indications are that the 1986 crop, aided by better weather, might see better results. In the past six years, grain production has grown more than 100 million tonnes, with wheat and rice accounting for about 80 percent of the recorded increases.

Since 1961, China has consistently imported large quantities, primarily wheat, and Canada has been and remains as one of the major wheat suppliers to China, along with the U.S., Australia and Argentina. Canada consistently supplies 20 to 40 percent of China's imported grains, however these imports satisfy only about 4 percent of their total requirements. China's grain imports alone currently make up over one seventh of the world's total trade in wheat.

b) Dairy Production

The PRC government continues to place considerable emphasis on dairy production as part of its plans for improved food self-sufficiency. Average annual milk production is quite low at 700 kg per animal, and breeding programs have been developed to emphasize increased milk production and butterfat content.

In 1985 the total milk production was reported to be 2.5 million tonnes, about 2.5 kg per capita. About half of this quantity was produced from high-yielding cattle centered around the main urban areas using as feed, maize silage and surplus vegetables. Other major producing areas include several provinces in the north. In these areas, production is extensive and excess milk is converted to skim milk powder enabling easier transport to the consumer areas in the south and east. Most of the production at present is controlled by the State, which has played an essential role in building up existing herd quality, particularly through introducing black and white Friesian cattle. However, a better collection and transportation system (e.g. more collection centres and use of refrigeration tankers) is also needed.

c) Swine Production

China has the largest swine population in the world and traditionally pork is the major source of meat in their diet. For 1986, Chinese pork production is expected to be about 17 million tonnes. The bulk of production is from individual livestock reared on private plots; virtually all rural families in China own a few pigs. This provides meat for the family, some cash income, and increases the supply of organic fertilizer. Although small holder production will continue to be the mainstay of the Chinese industry, there has always been a segment comprised of commercial scale hog operations intended to provide pork for export markets.

The native Chinese hog is a small animal, comprised of various breeds and prone to possessing poor feet. However, it is prolific, fast maturing and has a long breeding life. Although Chinese pigs usually have poor conformation and fatty carcasses, they can utilize higher roughage content diets and thrive on common forages such as sweet potatoes and the water hyacinth, a troublesome weed. Recent change in consumption patterns also have dictated the need to breed high lean meat hogs.

China has traditionally been one of the world's major live hog exporters. Currently the Chinese are planning the expansion of the Western style intensive hog-producing sector.

d) Potatoes and Sweet Potatoes

China is an important table potatoes and sweet potatoes producer. In the non-producign areas, potatoes are regarded as more a vegetable than a staple food. Table potatoes, used mostly in stews and dumplings, are grown on approximately 1 million hectares in North East Chinese provinces of Mongolia and Heilongjiang. Sweet potatoes are produced on approximately 3 million hectares in the same region.

China is considered deficient in potato production, management, harvesting and storage techniques. China also lacks the typical North American processing technology and infrastructure (i.e. french fries, freezing, fast-food services, etc.).

3. Processing/manufacturing

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Government Agri-food Policy and Instruments

D. CHINA GOVERNMENT AGRI-FOOD POLICY AND INSTRUMENTS

In his 1986 report on the 7th Five-Year Plan, Premier Zhao Ziyang stated that "China should continue to strengthen bases for the production of export commodities and build export-oriented factories."

The adoption of an "open door" policy by the Chinese resulted in a profound expansion and diversification of China's foreign economic relations. It is estimated that during the 6th Five-Year Plan (1981-1985), foreign trade increased by almost 100% reaching $70 billion in 1985. Increasing amounts of equipment and technology as well as commodities required for modernization, were purchased during that period.

It should be noted, meanwhile, that China has actively promoted exports of Chinese products and services abroad thus expanding foreign exchange earnings. More earnings were made from labour projects in the Middle East, tourism and exports of various commodities particularly in the far east region.

Government Instruments

The China National Cereals, Oils and Foodstuffs Import and Export Corporation (CEROIL) is responsible for importation of all agricultural commodities to China. It is also responsible for exports of all agricultural commodities and foodstuffs. Although CEROIL reports to the Ministry of Foreign Economic and Trade Relations (MOFERT) which has general responsibility for import and export trade, it is assuming an increasingly autonomous role.

The government has moved to decentralize decision making in trade matters to local activities. Individual enterprises are allowed to establish direct contacts and/or links with foreign exporters.

They are also allowed to maintain certain amounts of their foreign exchange earnings for their own use. In the meantime, the Chinese are encouraging direct foreign investment and are seeking foreign loans to help with their investment plans. In this regard, it is anticipated that China's foreign borrowing will increase to approximately $20 billion during the 7th Five-Year Plan, compared to $10.3 billion burrowed during the previous Five-Year Plan. However, recent experience has shown that the central authorities has tightened control over decisions undertaken at the local levels.

Joint Ventures and Foreign Economic Zones

The Chinese Government, in its attempts to attract foreign investment, has created the legal framework to achieve this objective and a joint venture law was instituted. Under this law many forms of cooperation with foreign companies were established. It should be noted that although the Chinese prefer to have joint equity ventures with their foreign counterparts, they therefore also promote more flexible forms of cooperation agreements with emphasis on compensation trade and countertrade transactions with foreign exporters and buyers. The Chinese are also increasingly becoming aware and concerned about the lengthy time it takes to conclude such forms of cooperation and the complications involved.

The government created several Special Economic Zones in Guangdong and Fujian provinces. In the meantime, special rights to undertake foreign trade and investment were granted to many other provinces and cities (Beijing, Hainan Island, Shanghai, Tianjin, Liaoning, Hubei) and regions. In the case of Shanghai and Tianjin projects up to $30 million may be approved by the local authorities. In addition, 14 coastal cities have been opened to increase foreign investment of capital and technology with an authority to approve

foreign projects up to a $5-10 million specified amount. It is estimated that foreign investment in China during 1979-1985 was over $16 billion, almost $5.3 billion of which was made in 1985.

The China International Trust and Investment Corporation (CITC) reports directly to the State Council. Its mandate is to initiate and finance joint venture projects both in China and abroad on a highly selective basis without government intervention or auspices.

The Ministry of Commerce has overall responsibility for internal distribution and transportation of agricultural products as well as determining any overall import requirements from agri-food commodities.

The Ministry of Agriculture, Animal Husbandry and Fisheries has the general responsibility for the planning and promotion of agricultural production in China. The Ministry develops policy guidelines to achieve objectives for the Five-Year Plan in co-ordination with the State Planning and State Economic Commissions.

Inventory of Canadian Market Development Activities/Initiatives

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E. INVENTORY OF CANADIAN PUBLIC/PRIVATE MARKET DEVELOPMENT ACTIVITIES/INITIATIVES (PAST, CURRENT AND PLANNED)

1. FEDERAL

Canada's extensive involvement in China and the numerous initiatives which were carried out in that country during the last few years (Appendix II-IV and following pages), indicate that the Chinese market continues to be regarded by the Canadian agri-trade industry as an attractive and most promising one for a wide range of agricultural products, commodities and services. In the meantime, Canada recognizes the Chinese desire to enhance and improve the productivity and efficiency of their agricultural sector and has provided extensive technical assistance to the Chinese during the last few years. Canada's contribution to China's agricultural scientific research and development had always been appreciated by the Chinese.

Recent experience by many potential exporters in China, however indicate that the Chinese have become increasingly concerned over foreign exchange spending both at the central and the provincial levels. The Chinese clients now insist on obtaining competitive financing for most agricultural projects either through joint venture arrangements or through concessional financing schemes. Following a recent visit to China by the Prime Minister, the Canadian government has responded positively to the Chinese requirement for competitive financing. This initiative should significantly facilitate future trade with China in the agricultural sector.

Two most significant developments have taken place in recent years; the signing of a new Veterinary Health Agreement in 1987 and the signing of a Plant Health Agreement in 1986. These two agreements, are expected to further contribute to the enhancement of export trade of a broad range of agriculture commodities and services to China. Small but significant livestock sales (cattle, swine,

semen, and poultry) have already materialized since the Veterinary Health Agreement was signed and more sales are expected in the near future.

Commodity	1985	1986
	thousands of dollars (Can.)	
Cattle, Dairy, Purebreed	96	398
Swine, Purebreed	-	80
Baby Chicks	201	135

The Plant Health Agreement is expected to facilitate sales of hybrid seed corn, forage seeds and possibly seed potatoes. A small sale of rapeseed ($40,000 Can.) was made during the first four months in 1986.

Federal Activities 1986/87:

The following is an overall summary of the activities by the federal government for all agriculture sectors in China in 1986/87:

1. Ongoing implementation of seven bilateral projects financed by CIDA. (Appendix III)

2. Seventeen activities planned as part of Agriculture Canada Joint Agriculture Committee (JAC) Program in China. These includes nine Chinese activities (incoming) and eight Canadian activities (outgoing). (Appendix II)

3. Two Agricultural Canada JAC provincial and university projects.(Appendix II)

4. JAC Agriculture Specialists program between Canada and China (Appendix II)

5. Two DEA projects planned under the Promotional Projects Program (Appendix IV)

6. Three IDRC agriculture related ongoing projects (Appendix V)

tails:

a) CIDA Program for Agriculture Development in China (1986/87)

The CIDA program in China included seven bilateral projects in the agriculture sector (Appendix III). All focused on transfer of technology through training in Canada, technical assistance in China, and provision of a limited amount of equipment and materials.

1. The Tanggu Animal Quarantine Project:
   Training in Canada and purchase of equipment (AG CDA).

2. Harbin Cattle Breeding and Animal Husbandry, (Semex Canada).

3. Heilongjiang Seed Improvement Project: Seed breeding, management production and processing techniques (Canadian Seed Trade Association).

4. State Farm 852 Dairy Forage Soil Improvement (Agdevco).

5. Heilongjiang August 1st Land Reclamation UNIV.

6. Liu Ho Cadre Training College

7. Keslan Potato Research Institute (new Brunswick Department of Agriculture)

b) Agriculture Canada JAC Program for China (1986 and 1987)*

The principal JAC programs for 1986 and 1987 comprise a total of nine Chinese activities (incoming) and eight Canadian activities/missions (outgoing). These projects are:

Canadian JAC Activities/Missions (outgoing):

1. Plant and Animal Quarantine and Seed Testing Mission (JAC III 2.1)**
2. Cereal Crops Breeding (JAC III 2.2)
3. Feed Technology Mission (JAC III 2.3)**
4. Pest Control Management (rutabaga, rapeseed and pest management) (JAC III 2.4)
5. Swine Husbandry Seminars (JAC III 2.5)**
6. Dairy Husbandry Seminar and Breeding Mission (JAC III 2.6)**
7. Leafcutter Bee Management (JAC III 2.7)
8. Plant Genetics (JAC III 2.8)

c)

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* JAC activities are planned to take place during Canadian fiscal years 1986/87 and 1987/88.

** These JAC items are also listed under the Exchange of Agriculture Scientists between Canada and China (Appendix II).

Chinese JAC Activities/Missions, Incoming: (1986 and 1987)

1. Plant Quarantine and See Testing (JAC III 1.1)

2. Wheat Study (JAC III 1.2)

3. Cooperative Research on Dryland Water Resources (JAC III 1.3)

4. Cooperative Research on Synthesis of Marked Compound (JAC III 1.4)

5. Cooperative Research on Grasses and Grassland Management (JAC III 1.5)

6. Study of Canadian Market Systems (JAC III 1.6)

7. Technical Exchange and Animal Health (JAC III 1.7)

c) Agriculture Canada JAC Program for China (1988 and 1989)

Canadian JAC Activities (outgoing missions/seminars)

1. Exchange of Plant Genetic Resources (JAC 2.2.1)

2. Cereals Crop Breeding and Management (JAC 2.2.2)

3. Integrated Pest Management (JAC 2.2.3)

4. Buckwheat (JAC 2.2.4)

5. Collection of Seed of Grasses and Legumes (JAC 2.2.5)

6. Plant Health Mission (JAC 2.2.6)

7. Information Exchange (JAC 2.2.7)

8. Dairy Technology Mission (JAC 2.2.8)

9. Tobacco Technical Seminar (JAC 2.2.9)

10. Forage and Seed Technical Mission (JAC 2.2.10)

11. Technical Beef Seminar (JAC 2.2.11)

12. Seed potato Technical Mission (JAC 2.2.12)

Chinese JAC Activities (incoming missions/events):

1. Potato Study Mission (JAC 2.1.1)

2. Study Mission on Grain (JAC 2.1.2)

3. Study Mission on Strawberry (JAC 2.1.3)

4. Study Mission on Cereal Crop Varities with Multiple Resistance (JAC 2.1.4)

5. Study Mission on Oats (JAC 2.1.5) d)

6. Mission on Quarantine Methods for Golden Nematode (JAC 2.1.6)

7. Vegetable Hydroponics and Large Greenhouse Study Mission (JAC 2.1.7)

University and Provincial JAC Program of Cooperation in the Field of Agriculture (1988 and 1989)

1. Dairy Sector Technical Seminars (CIDA/Agriculture Canada)

2. Swine Sector Technical Seminars (CIDA/Agriculture Canada)

3. Agriculture Management Research and Teaching Systems (University of Alberta)

4. Educational Cooperation (University of Guelph)

5. Educational Cooperation (University of British Columbia)

6. Educational Cooperation (University of Alberta)

7. Educational Cooperation (University of Saskatchewan at Saskatoon)

8. Crops, Husbandry and Food Processing Exchanges (Alberta Agriculture)

9. Projects/Exchanges; Dryland Farming, Livestock, Crops and Farm Machinery (Saskatchewan Agriculture))

1) DEA Planned Activities for FYs 1986/87 and 1987/88

Activities FY 1986/87

1. Ag China 86 (Info Booth - November 1986 - concluded)

2. Incoming Swine Mission (concluded June 1987)
This activity has been incorporated as a JAC activity.

Planned Activities FY 1987/88

1. General Agriculture Mission

2. Ag China 87 (Info Booth - November 1987)

e) International Development Research Centre (IDRC) Program in China

The IDRC is a public corporation concerned with providing assistance in international development research in all sectors including the agriculture sector.

The IDRC maintains a large program in China (Appendix V). This program include 3 projects devoted to the Agriculture sector.

1. Rapeseed breeding and cultivation (Ministry of Agriculture, Beijing - $550,900)

2. Cultivation systems yield, fertility, practices, breeding (Chinese Academy of Agricultural Sciences, Beijing - $414,400)

3. Agricultural information, documentation, information services (Chinese Academy of Agricultural Sciences CAAS, Beijing - $393,704)

f) Provincial Activities

Ontario

1. Premier Petterson visit to China (August 1986)

2. Ontario Ministery of Agriculture and Forestry (OMAF) Sales Mission to China (November 1986)

Alberta

1. Qiqihar Rangeland Improvement Project agreement signed in 1983, this four year agreement between Alberta Agriculture and the Ministry of Agriculture Animal Husbandry and Fisheries in Heilongjiang provided technology transfer to Heilongjiang to develop pasture and livestock management.

2. Five members of the China Northern Pasture and Livestock Development Project representing Heilongjiang, Inner Mongolia and Hebei provinces recently spent two months training at Olds College.

3. Representatives of the Alberta Simmental Association and Alberta Agriculture completed a mission to Shangxi to discuss establishment of a brief livestock program.

4. Mission exchanges are planned in 1987 between Heilongjiang and Alberta with regard to pasture and livestock development.

5. Preliminary discussions have begun with Heilongjiang regarding technology transfer relating to cold weather treatment and cereal crops.

6. Alberta Agriculture Swine Specialist to participated in Ag Canada Swine technical seminar in March 1987.

7. Alberta Agriculture Minister, Hon Peter Elzinga, mission to China - April 1987.

Quebec

1. Quebec - Shangxi Agreement (singed in 1984).

2. Montreal - Shanghai twining agreement (signed in 1984).

3. Two Chinese trainees recently spent 4 months in Quebec and will return for further long term training.

4. Two Chinese trainees, a vet and a geneticist, are expected to come to Quebec for long term training (one year).

5. The Quebec Ministry of Agriculture is pursuing a dairy project in Shangxi province.

6. Shanghai/Montreal Dairy Project.
This project is presently being pursued with the Foreign Affairs Bureau of Shanghai with possible CIDA involvement.

7. A Quebec firm is presently pursuing a poultry egg production plant in Shanghai.

British Columbia

1. The B.C. Ministry of Agriculture and Fisheries and the Zhejiang province (near Shanghai) signed in early 1985 a protocol agreement to establish a dairy farm (Holstein, A.I. Center plus A.I. equipment). A delegation from Zhejiang province toured B.C. Dairy farms recently. The B.C. industry had expressed strong interest in the Zhejiang dairy sector.

2. An Exchange between B.C. and the province of Quinghai (West China) on grassland cattle grazing has been initiated. Some B.C. equipment from Frazer valley has been successfully used in that area and further discussions are underway. The project involved dryland management, cattle, and forage reseeding.

3. An Ontario cold storage firm through its B.C. branch is presently assisting the Xinhui orange growing region south of Guangzhou to upgrade orange storage conditions.

4. A B.C. firm is presently assisting the Chinese to export oranges to North America through the introduction of improved storage techniques.

5. Three B.C. delegations including a delegation lead by the Minister of Agriculture and Fisheries has visited China recently.

6. A recent CIDA Technical Transfer Mission to Liaoning included representatives from B.C.. A B.C. Firm is now attempting through CIDA program to assist the Chinese in upgrading their juice processing capabilities in order to export the product to Japan.

7. The B.C. government and the Liaoning province have signed a protocol to establish an A.I. center for training. A shipment of 103 Holstein cattle from B.C. was the first Canada-dairy cattle to be shipped to China.

8. B.C. main interests in China are:

a. Dairy cattle (Holstein) and Embryos. A recent sale of B.C. embryos has been reported and a selection of some cattle from Frazer Valley is underway;

b. Technical exchange and technological upgrading (apple juicing and controlled storage techniques);

c. Breeding turkeys.

9. The B.C. tissue culture industry, recognized as a leader in the field, is interested in exploring application of this technology in China.

10. The Ministry of Economic Development and the Ministry of Agriculture and Fisheries work closely together on all export development projects.

Saskatchewan

Manitoba

The Maritime Provinces

3. Private Sector Activities

A list* of firms presently active in China as well as those who had visited China either individually or as part of various outgoing missions (marketing and technical) and exhibitions is given in Appendix I.

It should be noted that this list is not an exhaustive one and there could be other firms which have not been included.

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Note: The List is for government use only and thus not included in copies circulated to the private sector.

Market Development Strategy

II Market Development Strategy

A. Market Sectors of Priority Interest to Canada

The objective of this strategy is to identify major market sectors of priority interest to Canada where federal activities may be directed in the short (1 year) and medium term (2-3 years). A number of sectors are identified, however other market sectors of lesser interest continues to receive assistance on a responsive basis.

This strategy generally pertains to the period 1987-1989 and is intented to take advantage of the Animal Health Protocol of 1984, and the Plant Health Protocol of 1986. These agreements constitute an essential and important component in this strategy. As exports of breeding livestock and plant products materialize in a significant way in the next two years, it will then be possible to develop a more comprehensive strategy for 1989/90 and beyond.

A recent conference on China (The China's Agribusiness Challenge, April 29-30, 1986, Appendix VII) provided a useful indication of Canadian business community priorities. The recommendations and conclusions which emerged during that conference, have helped to identify the potential as well as the difficulties encountered in dealing with China, and proposed measures and options for the federal government to promote and facilitate trade in that market. The following are the priority market sectors and sub-sectors identified.

Priority Market Sectors

Grains: (Wheat, and possibly malting barley).

Livestock (Holstein breeding dairy cattle, semen, and embryos, breeding swine and breeding poultry (chicken and possibly turkey poultries).

Seeds (Forage seed, hybrid seed corn).

Grain and seed handling, cleaning, and storage equipment.

Fertilizer (potash).

Food processing; (small to medium scale bakeries, animal slaughterhouse and meat processing equipment and vertically integrated projects).

Feedstuffs; micro components, flavoring agents, premix technology (computer software), mixing equipment, joint venture turnkey feed plants.

B. Situation in Sectors not Identified as Priority:

Overview

It should be emphasized that this strategy paper recognizes that a chief objective of the Chinese government is to strengthen its basis for the production of exportable commodities through the construction of export-oriented production plants. To this end, the Chinese enterprises are eager to acquire Western technology and equipment. The Canadian Agribusiness industry recognizes that it has only limited competitive capability to supply most food processing equipment needed for China's modernization and food industry consultants efforts. It may be possible, however, for Canadian firms and food industry consultants to become involved in new plant design and old plant upgrading required to assist the Chinese in achieving their modernization objectives. Equipment integration and technology application is very crucial as Chinese are becoming increasingly aware of human factors decisive in realizing optimum potential of newly established systems.

Oilseeds

China is a major rapeseed producer (rapeseed is China's second most important edible oil crop). However, the only promising Canadian activity in this sector is concerned with rapeseed processing, and only one Canadian firm is pursuing opportunity in the Chinese market. This firm had the knowledge and expertise in canola processing in general, and deodorization equipment in particular. The latter is produced in Canada.

Food Processing Equipment

Within the Agriculture sector, food processing receives a high priority by the Chinese authorities. However it has been recognized that Canadian production capability of food processing equipment is somewhat limited to small to medium size bakeries, animal slaughtering and meat processing equipment, and feed mixing equipment. Accordingly, the dairy processing, canning, malthouse and brewing equipment have not been identified as a high priority in this strategy. The European and American firms have far greater and more competitive capabilities than Canadian firms. The present dominance of European and American firms as joint venture partners with the Chinese confirms this assessment.

Nontheless, concessional financing in conjunction wi*h a possible future CIDA financed project in dairy processing may enhance prospects for this sector. CIDA involvement would ensure maximum Canadian content (i.e stainless steel tanks, pipes, pumps, and joints, etc.). Canadian expertise as well as consulting services could be further utilized to put together plant design and management packages for turnkey projects in the dairy sector.

Horticulture/Primary (seed potatoes and apples)

China is an important table potatoes producer (1 million hectares in North East China provinces of Inner Mongolia and Heilongjiang and Southwest China). China is also a major sweet potato producer (3 million hectares). It is expected that a Plant Health Agreement specifically dealing with seed potato issues will be reached this fiscal year. This agreement may facilitate export sales of small quantities of seed potatoes beginning sometime in 1987/88.

Since imports of seed potatoes from other sources (i.e. Europe) are rather limited, if non existent, this market sector was not identified as a priority. However, based on discussions with the industry, it appears from their assessment that Chinese production harvesting, and storage technology is not very efficient. According to a leading potato industry businessman, there is no potato processing industry in China of the size or scope which exist in Canada (lack of freezing capabilities and fast food service sector). Accordingly, an activity will be proposed for FY 1988/89 to further assess China's requirements in this market sector and to determine whether any market potential for potato harvesting, storage and irrigation equipment exists.

China also imports Canadian apples through Hong Kong for sale to Chinese expatriates enroute to Guangzhou and other cities. According to the industry, Hong Kong is now Canada's fifth largest importer of B.C. apples (1986 Jan-June exports $224,000).

The Chinese are interested in improving the productivity of their apple orchards and apple juicing operations and are seeking Canadian assistance in this regard. The Canadian apple industry appears to be taking an active and independent role in this market sector.

Other market sectors, which were not identified as priority are: pulses and special crops, bakery products and cereal preparations, beverages, and confectionary and miscellaneous foods (including snack foods). This is due to the fact that China is a developing country and accordingly consumer demand for western style processed food products and other consumer goods is limited to the tourist and hotel trade. In addition, the Chinese government, due to scarcity of foreign exchange, discourages or restricts imports of most Canadian products listed under this category.

Exporters of other products such as hides, furs, and specialty commodities which were not identified as priority in this paper, will be assisted by the federal government on a responsive basis.

Cross-Sectoral Strategy/Program

D. CROSS SECTORAL STRATEGY

Most of the activities to be included in this plan are specific to products or subsectors. It is clear however, that there is also a need for government activities that are of a more general nature and that will be of potential benefit to all agri-food exporters. The most obvious such activities are those aimed at maintaining a framework of good relations conducive to increased agricultural trade, for example, exchanges of Ministerial visits and other high profile events intended to maintain open access for Canadian businessmen.

Other activities - what might be classed as 'background studies' - are also required. Consultations with Canadian exporters active in China revealed a need for greater transparency concerning the China market and an improved distribution of information about the ways in which business is successfully being done. We also found a need to improve the commercial impact of some existing government activities and to provide support to potential Canadian exports by offering related education or training to the Chinese.

In light of the results of our consultations on the draft market development plan, External Affairs will undertake seven projects with the following general objectives:

- Seek to increase transparency of this China agri-food market by commissioning a study into the Chinese decision making process, the organization of the agri-food sector in China, the respective roles and interrelationships of various Chinese agencies, possible techniques to assess project proposals and modalities for ensuring adequate briefings for interested Canadians.

- Seek to assist Canadian new entrants to the Chinese market by identifying and assessing all available market entry mechanisms and making appropriate briefing materials available to interested Canadians.

- Seek to ensure that Canadian exporters have comprehensive knowledge of financing mechanisms that may be used for exports to China by identifying and assessing such options and disseminating information to agri-food exporters.

- Assist Canadian exporters to secure effective representation for exports to China by assembling all information available on the types of representation currently being used, comparing Canada's experience with others, examining the various options, examining the desirability and feasibility of increasing Canadian commercial representation in China and determining what recommendations, if any, should be made with respect to government action in this area.

- Seek to improve the commercial benefits of government sponsored developmental activities in China.

- Seek to increase the commercial impact of all government sponsored missions and official visits to China.

- Assess the training needs of the Chinese relative to Canadian export marketing efforts and determine ways in which the government can assist to ensure that such training needs are met.

- Provide potential exporters with timely and specific information on agricultural projects sponsored or financed by international financing institutions (e.g. World Bank, Asia Development Bank) and international development organizations (e.g. F.A.O., World Food Program).

- Publish a quarterly brief on agriculture trade opportunities in China listing emerging opportunities e.g. government policies, new projects, joint venture and co-production projects, and activities of other players in the market. This brief could be produced in conjunction with the China-Canada Trade Council.

- Provide details on joint ventures and co-production arrangements in China listing examples of successful players in the agriculture sector (e.g. Australia, and Holland etc.). Also report on any new changes in joint venture law.

- Encourage Canadian libraries and universities across the country to maintain mini libraries focusing on doing business in China. Develop a suggested list of suitable Chinese publications for potential use by businessmen interested in the China market.

- A consideration will be given to establish general criteria for eligibility for assistance offered to potential exporters (e.g. post support, mission participation, cost sharing, export experience, sub-sector and sector match, long term commitment).

FY 1987/88

Aditionally, we propose to undertake the following activities in conjunction with other interested organizations in order to increase information available to Canadian agri-food exporters.

1. Ministerial Agri-Trade Mission to China (Spring 1988):

This proposed mission would be structured similar to the 1986 mission which was lead by Minister Mayer. It is proposed that the delegation include agri-trade representatives who are already pursuing joint venture projects or about to submit proposals to their Chinese

counterparts with a view to facilitating and assisting them in their endeavours. The delegation would also include businessmen who have demonstrated strong interest in the market. The mission could visit CIDA projects in Tianjin and Heilongjiang to highlight Canada's contribution to China's agriculture sector. Products and services to be covered in this mission could include grain and seed handling and cleaning and storage equipment, bakery equipment, slaughtering and meat packing equipment, and possibly fertilizer and veterinary equipment.

2. China Agri-Trade Joint Venture Opportunities Seminars 1987-1988

Conduct series of seminars (two per year) in major cities in Canada to address China agri-trade business opportunities. The seminars would focus on joint venture opportunities in the agriculture sector and would address commercial, financial, and legal aspects relating to these potential opportunities. Two seminars would be held in Montreal and Calgary in the Spring of 1988 and an additional two would be held in Toronto and Vancouver in the spring of 1989. It is proposed that these seminars be sponsored jointly by DEA and private sector firms involved in Canada-China trade.

3. China Agri-Trade Sector mini-seminars

It is proposed that two mini-seminars be held in Canada in FYs 1987/88 and 1988/89 to address business opportunities in the livestock sector as well as other priority agriculture sectors.

4. Canada-China Joint Agricultural Committee (preparatory meeting - September - October 1987).

5. Ministerial Mission to China (to negotiate JAC program for 1988 and 1989 concluded)

6. Sectoral aid development missions to China. (Two missions proposed by Ag Canada for FY 1987/88)

FY 1988/89

1. Ministerial (Provincial) Agri-Trade Mission to China (November 1988)

The objective of this mission is to build on the momentum generated by the activities and initiatives undertaken in 1987 and earlier years. The delegation may include representatives from the livestock industry, seed industry, feed industry, agriculture consulting firms, and possibly the apple and seed potato industries (main interests include harvesting, planting and storage equipment).

Financing Source: Joint DEA and province (possibly Saskatchewan or Ontario)

2. China Agri-Trade Joint Venture Opportunities Seminars (Spring 1989). These seminars would be held in Toronto and Vancouver.

3. Ag Canada JAC Program 1988 and 1989

Canada and China had negotiated the second Joint Agriculture Committee program which would be implemented during 1988 and 1989.

5. CIDA Projects

a) Ongoing projects: (Appendix III)

b) New projects

(List of new CIDA projects will be added as soon as the new program is announced in 1987)

Sector 1

Grains and Oilseeds

Sector 1. Grains and Oilseeds (CITC Product Code:)

1. Sector Analysis

a) Main Characteristic of Sector

China's Grain Production:

As indicated above, the increase in China's grain production will probably continue, but at a more moderate rate. The Seventh-Five-Year Plan production target of 450 million tonnes by 1990 is modest and realistic. To achieve this target, however, will require increased investment in modern farming methods and practices.

b) Sub-sector of Prime Interest

Wheat:

Good harvests in the 1980's enabled China to reduce wheat imports from a record 13.3 million tonnes in 1982 to an estimated 6 million tonnes in 1985. Meanwhile, wheat consumption appears to be rising rapidly due to significant changes in consumer preference and eating habits. Consequently irrespective of Chinese plans, the leading wheat exporting nations, including Canada, expect wheat imports to continue rising in the foreseeable future.

Malting Barley:

China periodically imports malting barley from Canada to blend with domestic varieties. The growth of foreign

joint venture malting house and brewing facilities in China (Appendix VI) will likely lead to increased import requirements for quality malting barley from Canada and other sources.

c) Import System

The China National Cereals, Oils and Food stuffs Import and Export Corporation (CEROIL) is the sole government agency responsible for imports of agriculture commodities including wheat and malting barley CEROIL negotiates wheat and barley purchases directly with the Canadian Wheat Board.

d) Distribution System

China generally arranges for its own transport of wheat imports through three state corporations; the China National Foreign Trade Transportation Corporation, the China Ocean Shipping Company, and the China National Chartering Corporation. The main ports (Shanghai, Tianjin, Guangzhou, Shanton, and Dalian) have been strained in recent years and delays in landing and loading were frequent. The bulk of grain imports is carried internally by rail, river network and by sea.

e) Trade Flows (i.e. imports from Canada/other sources)

Cereal grains continue to be the largest component of Canada's trade with China with wheat, barley, and wheat flour accounting for approximately 36.5% total exports and 97.2% of total agricultural exports in 1985. Other sources are the U.S.A., Australia, Argentina and the EEC.

f) Competitor Marketing/Market Development Activities:

Almost all wheat exporting countries provide technical assistance programs to assist the Chinese in utilization of imported wheat. The U.S. Wheat Associates operate a model mill, bakery and baking school in China. The Australian Wheat Board routinely conducts technical seminars in China and invites Chinese technicians to attend training courses at Australian milling and baking facilities. The Canadian International Grain Institute maintains an active training program for Chinese officials on behalf of the Wheat Board. More than 500 Chinese officials have participated in CIGI courses since 1974.

g) Constraints:

The main constraint is the Chinese goal of reduced imports of wheat while increasing domestic production.

h) Canadian Capability:

Canadian wheat is regarded as the best milling wheat in the world. It is commonly used as a blending wheat to improve the milling and baking quality of domestic or other imported wheats. The Chinese prefer Canadian wheat for its uniformity, cleanliness, and superior quality.

i) Assessment of Potential:

Canada has been a reliable supplier of quality wheat to China for more than a quarter century and continues to

be a preferred source of supply. However, the new Chinese policy prescribes that grain imports will no longer be governed by long terms agreements with supplier countries including Canada.

The Chinese have assured senior Canadian officials that they will ensure that Canada maintains its market share of wheat imports. Imports of malting barley are likely to continue, but on an irregular basis.

j) Summary of Canadian Private Sector Interests and Activities:

The Canadian private sector participates in the numerous seminars and courses conducted by the Canadian International Grains Institute every year. The industries associated with wheat trade, including grain and seed handling, distribution, storage, and baking have always been involved in the various technical missions to and from China. As a result of this involvement opportunities have been identified for grains and seed cleaning equipment, storage and silo equipment as well as bakery equipment. A few Canadian consulting engineering firms are presently pursuing opportunities to build port grain receiving and handling facilities.

A separate strategy for equipment will be discussed under the grain and seed handling, cleaning and storage equipment sector.

SECTOR STRATEGY

a) Conclusions and Market Development Objectives

Canadian grain sales are going well, and the outlook is promising for larger wheat sales and the development of barley and perhaps malt business on a large scale. Our trade relations are excellent. Canada must continue to provide reliable supply, high quality and customer service. Great care must be taken to ensure that issues outside of the grain area do not develop into irritants which impinge on grain sales.

As noted earlier, the Chinese indicate that they will continue to import wheat and malting barley from Canada albeit at perhaps reduced levels. However the Chinese policy is to no longer negotiate long term agreements with any supplier including Canada.

Canada's objective is to maintain its market share and ensure that the Chinese continue to regard Canada as a priority source for milling wheat and malting barley. The Canadian Wheat Board market maintenance efforts, in part through the Canadian International Grains Institute and the office of the Minister responsible for the Wheat Board have traditionally managed to ensure that this objective is achieved.

b) Proposed Market Development Program

The Wheat Board devotes considerable resources to maintaining Canada's market share in China. Through the Canadian International Grains Institute, and the Canadian Grain Commission, the Wheat Board conducts technical courses, and hosts numerous Chinese missions every year. In this way the Board is able to maintain an excellent relationship with CEROIL.

Consequently, no additional Federal market development activities are proposed in this paper.

Our post in Beijing, should meanwhile continue to contribute and provide full support to the Canadian Wheat Board activities in China as and when required.

Major Activities:

There are regular visits to China by Ministers, including CWB Ministers, for good will and business development purposes. The Chinese Minister of Foreign Economics and Trade Relations (MOFERT), who is responsible for CEROIL, was in Canada in April 1981 at the invitation of the Wheat Board Minister. There are of course, also regular Wheat Board visits for negotiations.

The Canadian International Grains Institute has regularly asked Chinese participants to attend international courses in Winnipeg. More importantly, the Institute has held 11 bilateral courses specifically for the Chinese. These are a success and will be continued. The CIGI is funded 60% by the Department and 40% by the CWB.

Future Opportunities:

China is now the world's largest wheat producer. While wheat imports from Canada, and all sources, have fallen sharply from the high levels of the early 1980's the outlook is for continued substantial sales by Canada over the longer term particularly as the Chinese standard of living continues to rise. Prime Minister Zhao recently stated that China's wheat production could not possibly keep up with their increasing need for wheat and China would continue to be a substantial importer of wheat at least until the year 2000 if not beyond.

Consumption of beer in China is increasing by about 30% annually which is, in turn, resulting in demand for malt in excess of domestic production capability. Brewing capacity is currently about 22 million hectolitres, or more than double 1981 capacity of 9.1 million. Funds have been allocated, according to Chinese food industry sources, to increase production to 50 million hectolitres over the next few years. Although total Chinese imports of malt are only about 10 thousand tonnes it is expected that import demand will grow substantially unless barley malt facilities are rapidly expanded. In the latter case it seems likely that malting barley would have to be imported.

There are also prospects of feed barley sales as the Chinese livestock industry develops in response to Chinese expectations in regard to the quality of their diet.

Government Activity:

There have been trade irritants raised from time to time which have not been helpful to our relations in the grain trade, e.g. textiles, mushrooms. However, in recent years, these problems have been handled with sensitivity to the importance of wheat sales to China.

Planned Agriculture Canada JAC Activities for 1987

1. Cereal Crop Mission to China (Ag Canada JAC III 2.2). This activity is noted although it does not directly relate to market development. (It involves collection of germplasm in various Chinese provinces.

2. Wheat Study Mission to Canada (Ag Canada JAC III 1.2)

Oilseeds Sub-sector

Objectives in China

Since 1982, there has been no active market development activity with respect to oilseeds or oilseed products. Industry opinion of the Chinese market is that domestic oilseed production has increased to the point where self-sufficiency could be maintained, and that potential for Canadian oilseeds and products is limited.

Major Activities

In 1980, a technical mission visited China for a two week period, and was followed in 1982 by a Chinese delegation visiting Canada. There have been no major activities initiated or carried out since that time.

Future Opportunities

With population growth and higher incomes, greater demand for vegetable oil could be expected. In addition, China's livestock industry is expanding and this could lead to significantly increased demand for protein meals.

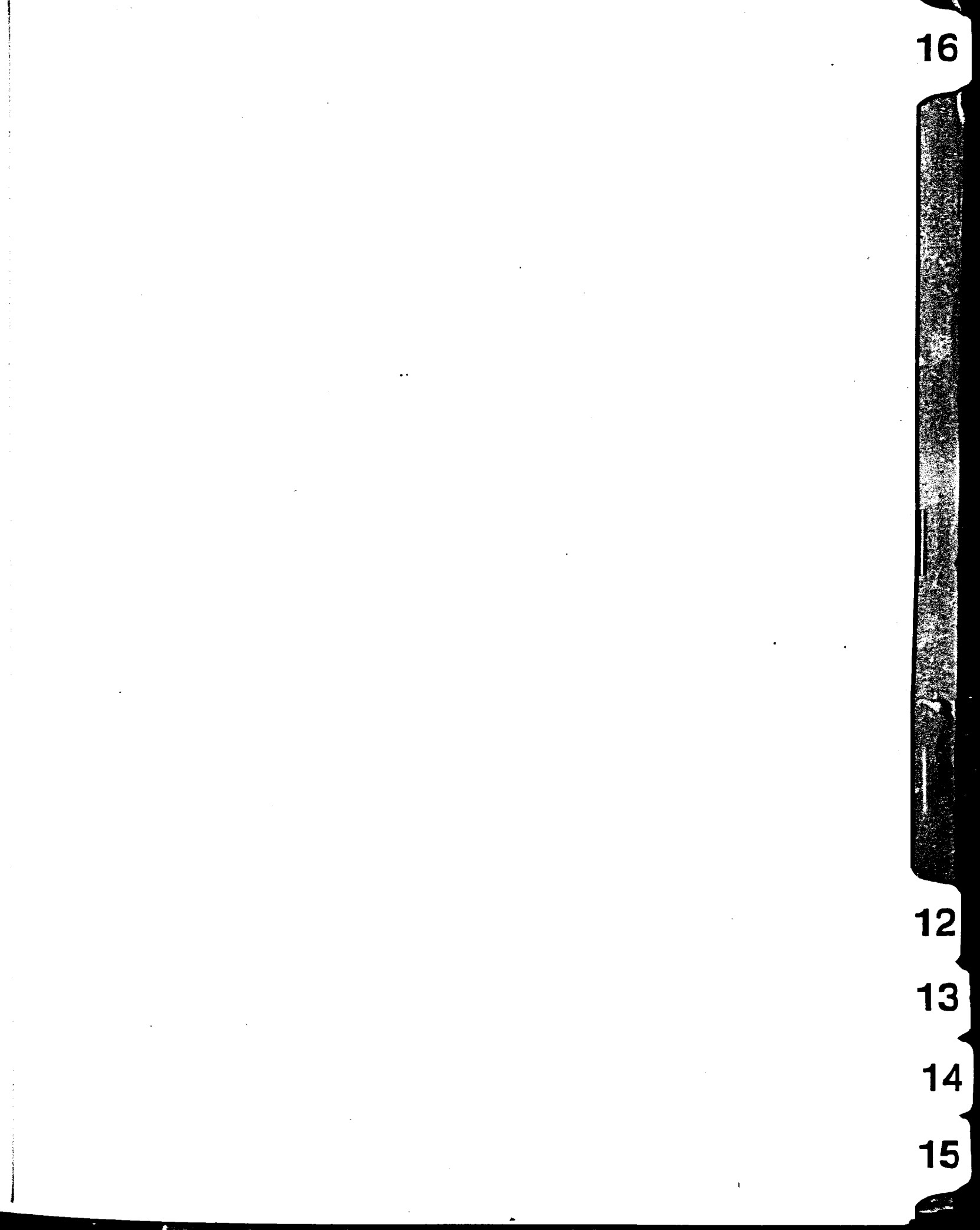
Oilseeds utilization in China is an area where significant technology transfer is required.

Government Support Mechanisms

Government support programs (PEMD, CIGI) are responsive to industry requirements and (subject to availability of funds) capable of meeting industry and government objectives.

Recommendations

The Canadian canola industry should be encouraged to undertake a comprehensive review of this potential market, highlighting changing requirements for oilseeds and vegetable oil imports, potential for sales of Canadian oilseeds to this country and the merits of possible technical exchange. Government should assist this activity through various support mechanisms possibly including CIGI.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Sector 2

Livestock

- Breeding Dairy Cattle, Semen and Embryo
- Breeding Swine
- Breeding Poultry

Sector 2. Livestock: (CTIC Product Code:)

1. Sector Analysis

a) Main Characteristic of Sector

The Seventh Five-Year Plan emphasis is on increasing production and consumption of animal proteins. According to a recent U.S. Attache report (May 1986) from Beijing, the 1990 targets for the output of major livestock products are as follows:

Meat: 22.75 million tones, up 19.7 percent over 1985.

Milk: 6.25 million tons, up 110 percent over 1985.

Eggs: 8.75 million tons, up 65 percent over 1985.

To achieve these goals, incentives and an adjustment in the pricing of domestic meat as well as incentives to increase feed production have been provided under the New Farm Policy. As a result significant increases (75%) were achieved in poultry, swine and cattle production in 1984.

The dairy industry is one of the least developed of the livestock sub-sectors and is highlighted in the new plan. Emphasis is placed on expanding the dairy cattle population through introduction of high yielding breeding stock. The Ministry of Agriculture, Animal Husbandry and Fishery plans to increase China's dairy cattle population from one million to 10 million by the year 2000.

b) Sub-sectors of Prime Interest:

Breeding dairy cattle & semen and embryos
Breeding swine
Breeding poultry stock (baby chicks and turkey poultries)

Sector 2

Breeding Dairy Cattle, Semen and Embryo Sub-sector

Breeding Dairy Cattle, Semen and Embryos Sub-sector (CITC Product Code:)

1. Sub-sector Analysis

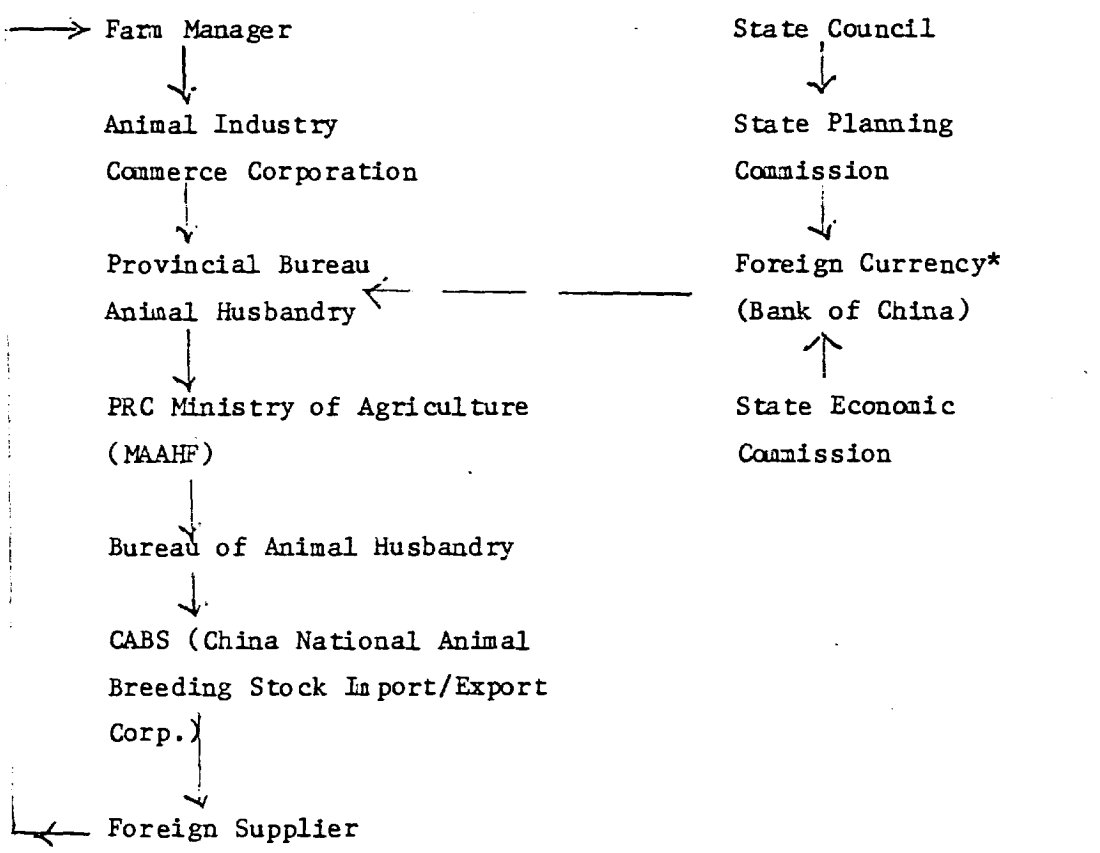
China considers Canada to be a preferred supplier of dairy cattle and semen. The current CIDA program and Agriculture Canada's Joint Agriculture Committee (JAC) program of technology exchange have succeeded in impressing the Chinese authorities and directing their attention to the considerable Canadian expertise and capability that exists with respect to the dairy breeding, semen and embryos sub-sector.

Canada signed five Veterinary Health Agreements with China in 1985. This was a significant step in our bilateral relationship for agriculture trade. It enabled some Canadian firms to export modest quantities of dairy breeding stock and semen to China in 1985/86.

The Agreement expires in 1987. As this plan was being prepared a new agreement was reached (October 1987). It appears that the terms of the new agreement will be more onerous than the original, making trade in live animals, particularly dairy cattle, more difficult for Canadian exporters. Nonetheless, experienced Canadian exporters are of the view that the new requirements can be met and trade will be able to continue, albeit at levels lower than those that had been projected earlier.

Import System

The following flow chart shows the steps a livestock producer must follow when acquiring/purchasing cattle and/or semen in most Chinese Provinces.



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* N.B.: The state usually controls the foreign currency. Where a province has its own foreign currency, it can bypass this approval process.

d) Distribution System

Imported livestock is transported by air freight to quarantine facilities in specific areas throughout the country. Following quarantine testing formalities, the cattle and swine are shipped by trains and trucks to their final destination.

e) Trade Flows

Since the signature of the Animal Health Agreement in March 1985, Canadian exporters have been able to sell breeding dairy cattle ($96,000 in 1985 and $398,000 in 1986). Semen exports in 1985 exceeded $1 million.

China also imports breeding stock from other sources including Holland, W. Germany and the U.K. with the largest proportion being imported from these sources through Hong Kong.

f) Competitor Marketing/Market Development Activities

Almost all exporting countries maintain an active program of technical exchange with the Chinese end users and regularly participate in exhibitions in China and visit the major dairy producing provinces. Some competitor countries (e.g. U.K. and New Zealand) have withdrawn from the market, at least temporarily, because of the more onerous conditions being demanded by the Chinese in the animal health agreements.

Canada also invests heavily in the development of trade in this sub-sector through technical training and CIDA sponsored projects.

g) Constraints

1. Lack of foreign exchange
2. Chinese negotiating style
3. Management of Chinese quarantine facilities
4. Competitors Technical and Marketing activities
5. Onerous health protocol conditions and inappropriately written specifications.
6. Lack of livestock husbandry skills and limited understanding of genetics.
7. Paucity of agriculture sector infrastructure.

h) Canadian Dairy Cattle Capability

Canadian dairy cattle are considered (by the Canadian industry) to be among the best and most productive dairy cattle in the world. The exacting standards employed by the Canadian breeders ensure clients receive excellent, reliable and high yielding stock.

Canadian cattle semen reflects the high quality of Canadian breeding dairy cattle and is considered to be a product of top quality.

i) Assessment of Potential

It remains to be seen whether China will increase its reliance on importing semen to upgrade their dairy cattle population or introduce high quality Canadian born Holsteins to expand the population at a more accelerated pace. In this regard, it should be noted again that the Chinese Ministry of Agriculture, Animal Husbandry and Fishery plans to increase the country's dairy cattle population to 10 million by the

year 2000, up from the present level of one million. It should be noted however, that the Canadian trade believes the Chinese projections are unrealistic, particularly in light of the difficult health chart that have been put in place.

j) Summary of Canadian Private Sector Interests and Activities

Since the signature of the Veterinary Health Agreements in 1985, Canadian exporters have pursued the Chinese market aggressively. Small sales of breeding Holsteins were made, and some technical difficulties were encountered. These are being resolved by Agriculture Canada Health of Animals officials. The Veterinary Health Agreements expired in 1987 and were replaced by new agreements signed in October 1987. The private sector continues to be heavily involved in CIDA - sponsored agriculture projects and in many of the JAC activities and missions.

2. SECTOR STRATEGY

Breeding Dairy Cattle, Semen, and Embryos Sub-sector

a) Conclusions and Market Development Objectives

Canada's cattle industry can provide a world class selection of breeding dairy stock to the Chinese. The industry also has superior technical capabilities and knowledge. Canada's market development objectives are therefore to ensure that the Chinese become fully aware of Canadian breed quality and through appropriate assistance to ensure they achieve maximum potential from imported cattle, semen and embryos. Considerable work in this has already been done and more activities are planned to strengthen Canada's foothold in the market against fierce competition by European and American exporters. The near term potential for breeding dairy cattle is modest, constrained by the health protocol, but that the longer term potential could be quite promising, depending on our successes during this difficult period.

b) Proposed Market Development Program (FY's 1987/88 - 1988/89)

I. Animal Health Protocol Missions and Services:

a. Modifications to the Animal Health Protocols with China (two visits by officials form both countries).
(proposed by AG CDA for FY 1987/88)
P.S.: It is in Canada's interest, at least at present, to press for continuing review and improvements in the agreements.

b. Continued support in servicing export market and review of the Animal Health Requirements (exchange of visits and consultations between officials in both countries). (proposed by AG CDA for FY 1987/88)

II Technical Training

With the Health of Animals Agreements now in place and quarantine procedures being negotiated, it appears that prospects for increased exports of dairy cattle in the medium term are good. However given the Chinese desire to realize maximum potential from the cattle they source from Canada and in view of the Canadian industry desire to demonstrate and impress their clients with the superior quality of their breeding stock, DEA proposes that Canada offer appropriate Chinese technicians and managers the opportunity to attend intensive livestock training courses in Canada. The courses, extending up to 6 months each, would be offered in conjunction with planned future CIDA dairy projects could cover proper herd management, maintenance, health and feeding techniques at the International Livestock Management School in Kemptville (the school is managed by Semex Canada). A special program, dealing with live cattle management as well as genetic material technology should be developed in consultation with the industry and the Chinese end-users. The training could be tailored to best fit the needs of the Chinese clients. It is farther proposed that training for genetic material technology should be made contract specific.

A key to the success of these courses would be the selection of suitable candidates by the Chinese, in cooperation with the posts.

Action Plan:

	FY 1987/88	FY 1988/89
Date:	Spring 1988	Fall 1988 or Spring 1989
Course duration:	3 months	3 months
Number of participants:	10 persons	10 persons

Following each course, two Canadians industry specialists would travel to China to work with Chinese technicians and managers upon their return from Canada in order to ensure that imported Canadian cattle perform to their optimum potential.

III Dairy Cattle and Genetic Materials Exporters Missions

Two missions lead by senior industry officials assisted by DEA Trade Commissioners, are proposed for FYs 1987/88 and 1988/89.

Objective

The 1987/88 mission would visit Heilongjiang and Jilin provinces. The 1988/89 mission would visit Sichuan, Hebei, and Liaoning provinces. It is also proposed that each mission would have the opportunity to meet China's Hong Kong based agent/representatives and livestock traders. The Hong Kong based agents of foreign as well as Chinese firms play an important role in the livestock trade with China.

Financing Source: DEA

IV Tours of CIDA Projects in China

It is proposed that the Post organize tours for four groups of Chinese officials to visit CIDA sponsored projects in Harbin and Tanggu during FYs 1987/88 and 1988/89. This activity would have to be worked out with China on quid pro quo basis.

Objective:

To demonstrate and highlight the successful Canadian contribution to the development of the Chinese livestock sector. These visits could possibly include short technical seminars on cattle breeding and management.

Sponsors: DEA and CIDA

V Ag CDA/CIDA Tanggu Mission (FY 1987/88)

This mission would visit the CIDA - financed Tanggu animal quarantine project to monitor the program and undertake extension work (one visit by project director and 3 visits by veterinarans).

Sponsors: CIDA

VI Canada-China Joint Agriculture Committee (Preparatory Meeting - China, September - October 1987)

Sponsor: AG CDA

VII Outgoing Ministerial Visit (JAC) to China - October 1987

Sponsor: Ag Cda

VIII Outgoing General Planning Mission to China to Identify Priority Sectors for Aid Project Development (FY 1987/88)

Sponsors: AG CDA and CIDA

This mission (VIII) which is being proposed by AG CDA, would be organized to coincide with the timing of the preparatory meeting for the JAC in 1987. The intent is to tie in planned JAC activities with future potential CIDA projects to ensure that activities complement each other and achieve the desired objective.

The missions VI - VIII, while general in nature will highlight the breeding dairy cattle market sub-sector.

VIII AG China 87 and AG China 88

DEA would recommend participation of Canadian industry in each event. The nature and scope of Canadian participation (i.e. whether to have an all Canada Stand or just an Info Booth) will be determined on the basis of progress achieved in the commercial trade front and the degree of industry interest. Industry role in these events will be maximized. The use of visual aids should be expanded and oriented to address each agriculture sector separately - i.e. a mural to highlight the livestock sector, another for equipment, and a third for grain and seed production.

Sponsor: DEA

IX The Second China's Agribusiness Challenge Conference

It is proposed that this consultative conference be held in April 1988. The Conference would focus on results achieved since the first was held and propose options for the following two years.

Sponsor: DEA, Ag Canada and CIDA
Financing: Mechanism for joint funding would be established.

Sector 2

Breeding Swine Sub-sector

Breeding Swine Sub-sector (CITC Product Code)

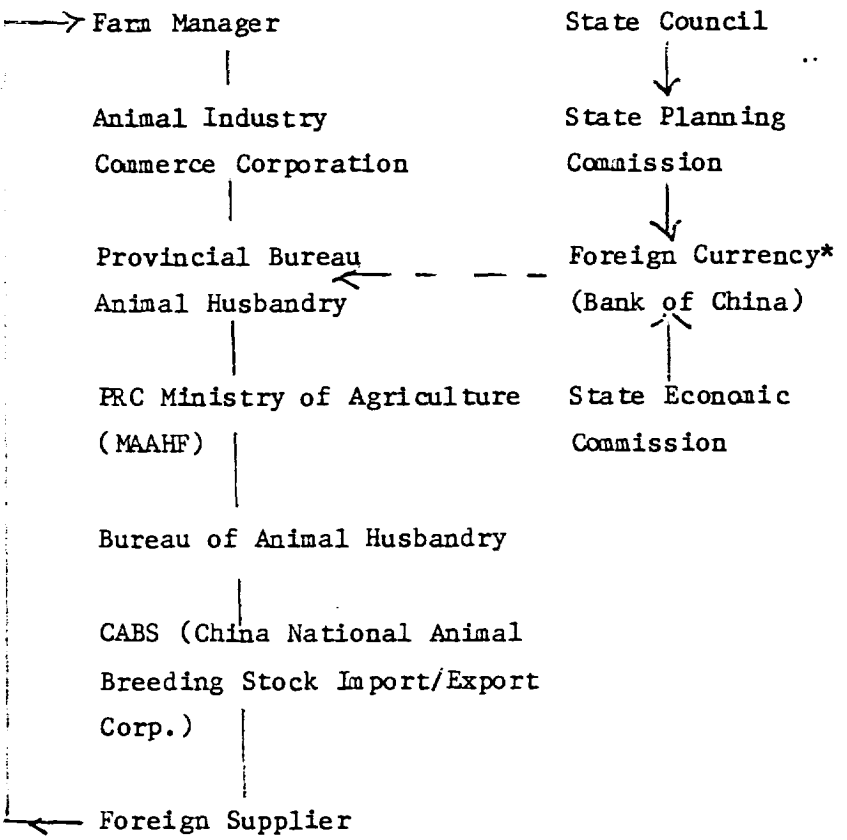
1. Sub-sector Analysis

a) Main Characteristics of Sub-sector

Canada is a major swine producer and exporter. Canadian swine are highly productive and are considered to be highly efficient feed converters. They produces lean carcasses and high quality pork. China, also a major producer and exporter, has prolific, fast growing swine although not as efficient in feed conversion as Canadian swine. They generally produce fatty carcasses and lower quality pork. The Chinese are planning to establish intensive western style swine production units and upgrade the quality and performance of their native lines. Canadian breeding swine which thrives under confinement conditions in intensive production units are ideally suited for this purpose.

b) Import System

The following flow chart shows the steps a livestock producer must follow when acquiring/purchasing swine in most Chinese Provinces.



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* N.B. That state usually controls the foreign currency. Where a province has its own foreign currency, it can bypass this approval process.

c) Distribution System

Imported livestock is transported by air freight to quarantine facilities in specific areas throughout the country. Following quarantine testing formalities, the cattle and swine are shipped by trains and trucks to their final destination.

d) Trade Flows (i.e. imports from Canada and other sources)

The first shipment of Canadian swine to China was made in 1986 ($60,000) and more significant sales are expected in 1987. Although some quarantine problems were encountered with this shipment, Ag Canada officials are confident that this problem will not reoccur in the future.

Chinese imports of swine were relatively insignificant ($440,000 in 1982 - mainly from Belgium, the U.S., Japan, all via Hong Kong). In 1984 China imported a total of $55,000 worth of swine mainly from Hong Kong and France. Since Hong Kong is not a producer of swine, it is assumed that swine imported from other destinations were trans-shipped through Hong Kong ports.

e) Competitive Marketing/Market Development Activities

Canadian breeding swine exporters face relatively strong competition from American, British and Danish exporters. Exporters from these countries undertake limited market development technical activities in support of their exports.

f) Constraints

1. lack of foreign exchange
2. management of Chinese quarantine facilities
3. Chinese negotiating style
4. lack of suitable infrastructure (large scale production operations)
5. limited level of technical capability in China.

g) Canadian Capability

Canada is a recognized world leader in swine breeding and swine management. The Chinese recognize that Canadian expertise could significantly contribute to their efforts to modernize their swine sub-sector. While the Canadian swine industry is eager to export high quality selected breeding stock to China as well as transfer swine management technology to the benefit of the Chinese. The industry have realistic expectations about this market however.

h) Assessment of Potential

It is too early to accurately quantify potential for Canadian exports to China. The Chinese swine sub-sector has traditionally been highly fragmented with most production at the household level. If the Chinese decide to introduce intensive swine production in a significant way, good opportunities for Canadian swine may be expected. The industry estimates exports of Canadian breeding swine could reach 1000 head annually by 1990.

i) Summary of Canadian Private Sector Interests and Activities

Canadian exporters have been involved in several technical and sales missions to China in recent years and have participated in

Ag China 85 and 86. They have also hosted numerous visiting Chinese delegations to Canada in the last few years.

2. SECTOR STRATEGY

a) Conclusions and Market Development Objectives

Chinese swine, noted for their prolific reproduction cycle, are deficient in a number of technical areas. They are considered inefficient feed converters compared to Canadian stock and produce pork which is not as lean as Canadian pork. The Chinese are seeking to combine the attractive characteristics of Canadian swine with the obvious positive features of their own lines. Canada's efforts should focus on convincing the Chinese that intensive swine production is the best solution to improving their production. The use of Canadian breeding stock by Chinese peasants should also be encouraged. Canadian success in this sub-sector in China, however, will depend on Chinese success in introducing intensive swine production on a large scale over the next five years. The following program is proposed to assist the Chinese in accomplishing this objective:

b) Proposed Market Development Program

1. Technical Training Courses

DEA proposes that two technical training courses (similar to those proposed for dairy breeding cattle) be offered to Chinese technical managers in conjunction with planned CIDA projects in this sub-sector. These two courses, lasting three months each would be held at the International School of Livestock Management at Kemptville, Ontario. As stated in the case of dairy cattle, a key to the success of these courses is the selection of good candidates by the Chinese in cooperation with the posts.

Action Plan

FY 1987/88	FY 1988/89
Dates: Spring 1988	Fall 1988 or Spring 1989
Course duration: 3 months	3 months
Number of participants: 10 persons	10 persons

Financing Source: A mechanism for joint financing would be established.

As with the dairy breeding cattle courses, following each course, Canadian specialists would travel to China to work with Chinese technicians and managers (i.e. the course participants) to ensure that imported Canadian swine perform to their optimum potential.

II Swine Technical Mission to China (Ag Canada JAC III 2.5, 1987)

The objective of this mission was to provide necessary technical assistance to the Chinese end users in major swine producing provinces. This activity had increased Chinese awareness of the advantages of Canadian swine.

III Swine Exporters Mission to China (FY 1987/88)

Funding Source: DEA
Date: March 1988

The exporters would concentrate on end users in the Provinces of Guangdong and Sichuan and arrangements would be made to meet with Hong Kong based traders/agents of swine for China accounts.

IV Swine Technical Mission to China (suggested by DEA for consideration in Ag Canada JAC* Program for 1988 and 1989)

This mission is proposed by DEA for possible inclusion in the second Agriculture Canada JAC program to be be negotiated in 1987. Its objectives would be similar to those given for the JAC III 2.5 already implemented in July 1987

V Swine Exporters Mission to China FY 1988/89

This mission would follow the above proposed JAC activities for 1988 and 1989. The format and regions to be visited would be similar to those suggested for the 1987/88 mission (III).

Funding Source: DEA
Date: March 1989

In addition to the above proposed activities, it is anticipated that general cross/sectoral missions listed under the dairy breeding cattle market sub-sector (IV - VIII) would include swine market development elements in their program.

VI Ag China 88

Depending on industry interest, live swine could be featured in th·· event .

* NOTE: SUGGESTIONS FOR JAC PROGRAM IN 1988 and 1989 ARE INDICATED FOR THE PURPOSE OF ILLUSTRATION ONLY. ALL JAC ACTIVITIES ARE SUBJECT TO NEGOTIATIONS BETWEEN AG CANADA AND MAAHF.

Sector 2

Breeding Poultry Sub-sector

Breeding Poultry Sub-sector (CITC Product Code)

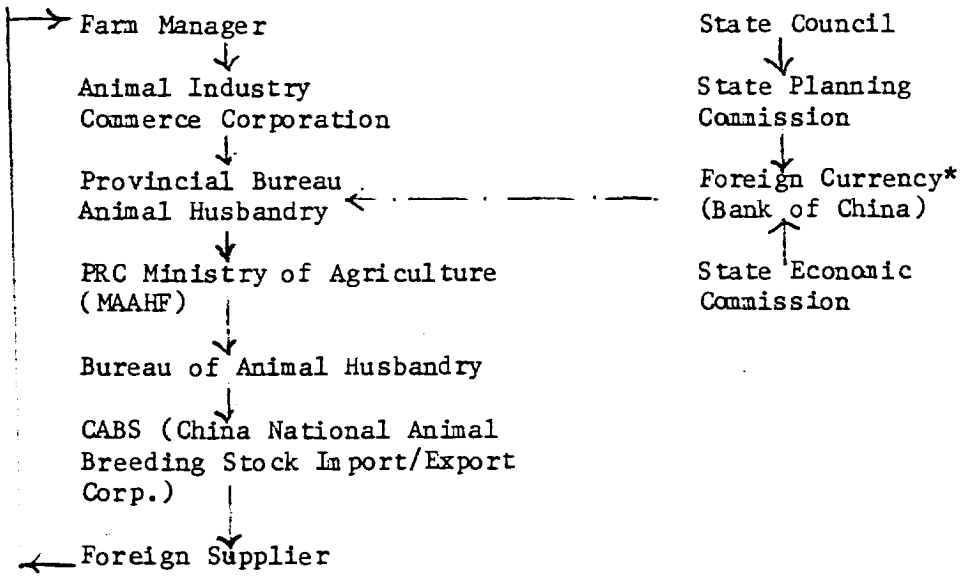
1. Sub-sector Analysis

a) Main Characteristics of Sub-sector

Canada is a leader in breeding poultry production and management and Canadian baby chicks are exported to more than 90 countries. The signing of the Animal Health Agreement with China has improved sales prospects for baby chicks and turkey poult into that market.

b) Import System

The following flow chart shows the steps an exporter must follow when exporting poultry breeding stock.



* N.B.: The state usually controls the foreign currency. Where a province has its own foreign currency, it can bypass this approval process.

c) Distribution System

Imported poultry breeding stock is transported by air freight to quarantine facilities in specific areas throughout the country. Following quarantine testing formalities, the breeding poultry stock is shipped by train and trucked to its final destination.

d) Trade Flows

China imports baby chicks from several sources including the U.S., W. Germany, France, the Netherlands as well as Hong Kong. Total imports in 1984 were US $975,000. Canadian exports to China were $201,000 in 1985, and $135,000 during the first six months of 1986.

e) Competitive Marketing/Market Development Activities

Europeans producers have always been keenly interested in the Chinese market. The Netherlands and France are presently attempting to promote and introduce totally integrated poultry production units into China.

f) Constraints

1. lack of foreign exchange
2. limited large-scale production operations
3. Lack of information about the true requirements of the Chinese users.

g) Canadian Capability

Canada's only exporter of poultry (chicken) breeding stock is well placed to supply high quality day-old baby chicks to China quickly and efficiently either from its breeding farms in Canada or

France. Similarity, Canadian turkey breeders are equally capable of providing high quality poultries to meet Chinese requirements (exports to China of $11,000 in 1984).

The industry has highly reputable technical service capabilities which can be provided to assist the Chinese in achieving the maximum benefit of Canadian breeding stock shipments. Canada is also capable of competitively supplying infrastructure and chicken production equipment.

h) Assessment of Potential

There appears to be good potential for increased exports of poultry breeding stock into China. However, sale volumes are not expected to be large.

i) Summary of Canadian Private Sector Interests and Activities

The Canadian exporters of poultry (baby chicks and turkey poultries) have continuously demonstrated interest in the Chinese market and participated in Ag China 85 and Ag China 86. They have also received many Chinese delegations in their plants and participated in seminars concerned with agricultural trade with China.

2. SECTOR STRATEGY

a) Conclusions and Market Development Objectives

The Chinese are reasonably aware of the potential of Canadian poultry breeding stock. They continue to import Canadian (day old) chicks although there is considerable variation in quantities from year to year.

Canada's objective should be to increase the volume of exports of poultry to China while increasing our ability to accurately project Chinese requirements in order to maintain a more consistent and growing level of shipment. To this end the following activities are proposed.

b) Proposed Market Development Program (FYs 1987/88 - 1988/89)

1. Poultry Industry Mission to China (FY 1988/89)

This mission, proposed for March 1989, would include poultry industry officials (breeding poultry and turkey), incubator manufacturers, feed consultants, and a veterinaran. The mission's objective would be to reach end-users in major poultry producing provinces in China and to identify new market opportunities. The mission could hold brief technical seminars in several locations.

Financing Source: DEA and the industry

II. Poultry Industry Involvement in Ministerial and/or Cross-Sectoral Missions to China

It is expected that representatives of the Canadian poultry industry will be represented in certain planned cross-sectoral missions to China.

* NOTE: SUGGESTIONS FOR JAC ACTIVITIES IN 1988 AND 1988 ARE INDICATED FOR THE PURPOSE OF ILLUSTRATION ONLY. ALL JAC ACTIVITIES ARE SUBJECT TO NEGOTIATIONS BETWEEN AG CANADA AND MAAHF.

Sector 3

Seeds (Forage Seeds, Hybrid Seed Corn and Canola Seed)

Sector 3. Seeds (Forage Seeds, Hybrid Seed Corn and Canola Seed)
(CITC Product Code)

1. Sector Analysis

a) Main Characteristics of Sector

The Canadian seed industry can offer a comprehensive range of seed and technology to the Chinese given the similarity in climatic conditions between the northern and northeast regions of China and the Canadian prairies. The Chinese are interested in improving the productivity of their grassland, increasing hybrid corn production, as well as introducing high quality Canadian low erucic acid canola varieties.

b) Import System

Canada and China are presently negotiating a Plant Health Agreement dealing individually with forage seeds, hybrid seed corn, soy bean seed, grapevines and seed potato. A mission to China from the Plant Health Division of Ag Canada during 1987 is planned to complete the negotiations.

c) Distribution System

A major barrier to continuing seed sales to China is the lack of an internal distribution system to the farmers' level for the product. The lack of seed testing facilities in China compounds the difficulties.

d) Trade Flows

China imports a variety of plant seeds from various sources including the U.S., Australia, New Zealand, Japan, Denmark, France, W. Germany and Canada ($3.7 million in total imports in 1984). The bulk of imports ($1,393 million, or 78% of total imports in 1984) was imported through Hong Kong. Canadian exports in 1984 were $27,000.

In 1986, China imported a small quantity of rapeseed from Canada ($40,000 in the first four months). Recent seed exports to China during May 1985 to April 1986 were $346,000. These exports include cloverseed, grass seed, grass seed red fescue and hybrid seed corn. China, a major rapeseed producer, intends to expand exports to Japan through introduction of high quality low erucic acid varieties.

e) Competitive Marketing/Market Development Activities

f) Constraints

1. lack of foreign exchange
2. lack of appreciation in China for certified seed
3. lack of understanding of the benefits to be derived through cultivation of forage (vs wild growth).

g) Canadian Capability

Canada is a world leader in plant seed production. Our national seed regulations are recognized generally, and have been granted equivalence in EEC regulations and standards. Exacting

standards for quality (purity, germination, health and trueness to variety) have been established by the federal government and apply uniformally in all provinces.

h) Assessment of Potential

A good commercial potential exists particularly for forage seeds, and hybrid seeds as well as canola seed. The Chinese are particularly interested in expanding and improving their rapeseed production.

i) Summary of Canadian Private Sector Interests and Activities

The Canadian seed industry has been active in the Chinese market for many years. Presently, the industry is undertaking the management of a Seed Improvement Project in Heilongjiang on behalf of CIDA with the objective of assisting the Chinese in the improvement in the management of seed breeding, production and processing. The industry, through the Canadian Seed Trade Association, maintains close contact with the federal government regarding seed trade activities in China.

2. SECTOR STRATEGY

a) Conclusions and Market Development Objectives

The Chinese, as outlined in the 7th Five-Year Plan, are determined to increase forage production and improve corn production through utilization of high quality inputs such as forage seeds and hybrid seed corn. Canada's objective is to benefit from this opportunity and export increased quantities of forage seeds and hybrid seed corn. Therefore increasing Chinese awareness about Canada's seed

industry capabilities could help in achieving potential export sales objectives. Assistance provided by the post to increase the transparency of the Chinese seed production, testing and distribution system would further enhance trade prospects for Canadian seeds.

b) Proposed Market Development Program (FYs 1987/88 - 1988/89)

This market sector is expected to benefit significantly from the recently signed Plant Health Protocol as well as the CIDA Heilongjiang Seed Improvement Project (executed by the Canadian Seed Trade Association).

Action Plan:

I Chinese Tours of CIDA - Heilongjiang Seed Improvement Project

	FY 1987/88	FY 1988/89
Number of Tours:	Two (Spring 1988)	Two (Spring/Fall)
Number of participants:	25	25
Financing Source:	DEA	DEA
Sponsor:	Beijing Post	Beijing Post

Financing Source: DEA and possibly CIDA

II Plant Genetics Mission to China (JAC III 2.8, 1987)

This mission is not directly related to market development as it will attempt to source new Chinese plant germplasm for Canadian research purposes. However, it is proposed that the mission include a

representative from the seed trade to increase industry awareness about potential opportunities in the market. (The CIDA-Heilongjiang project will continue to be operational until the end of FY 1988/89.)

Financing Source: University of Guelph

III Programming Mission to China to Identify Priority Sectors for Aid Project Development

This mission, proposed by AG CDA for all agriculture sectors, would include a representative from the seed trade to assist in the identification of appropriate projects for his industry's involvement.

IV Seed Industry Quality Control Course (FY (1988/89)

It is proposed that the seed industry in conjunction with the Canadian International Grains Institute organize a short (5-day) course in China (Heilangjiang-CIDA site) for Chinese seed industry specialists to enhance their knowledge about seed quality control procedures. The course would involve technologists from all the important Chinese provinces.

Financing source: DEA (or possibly AG CDA)

V Grassland Mission to Canada

Proposed by AG CDA for FY 1987/88.

VI Cross-Sectoral Activities (1987-1989)

In addition to the above proposed activities, it is anticipated that this market sector will be represented in the following cross sectoral strategy projects:

1. Ag China 87 and Ag China 88

2. Ministerial Mission to China (Ag Canada JAC mission in 1987)

3. Ministerial Agri-Trade Industry Mission (FY 1987/88)

Sector 4

Food Processing Equipment

Sector 4. Food Processing Equipment (CITC Code)

1. Sector Analysis:

a) Main Characteristics of Sector

b) Sub-sector(s) of Prime Interest

c) Import System

d) Distribution System

e) Trade Flows

f) Competition Marketing/Market Development Activities

g) Constraints

h) Canadian Capability

i) Assessment of Potential

j) Summary of Canadian Private Sector Interests and Activities

Department of Regional Industrial Expansion Market Development Suggested Strategy for the Agri-Food Sector in China

1. China is not considered a suitable market for special market development activities for food processing equipment. In general, the Chinese want Canadian companies to offer their technology and know-how free of cost. When purchases of Canadian equipment are rarely made, it is usually to facilitate the cloning of the manufacture of the same item in China for widespread use or for the scaling up of pilot plants to accommodate larger throughputs.

2. The few Canadian manufacturers of food processing equipment who have participated in trade missions, fairs and the like, are in unrelated areas of equipment design. A strategy of trade shows, missions and special trade promotional activities is not appropriate for assisting these few, unrelated Canadian companies. For the present, full use of the existing funding available under PEMD and a concentrated intelligence gathering exercise directed at opportunities involving the supply of Canadian-built food processing equipment is the recommended market development strategy.

2. SECTOR STRATEGY

a) Conclusions and Recommendations

The priority of the food processing sector is reflected in the seventh Five-Year Plan (1986-1990) in which China plans to invest $ 2-3 billion U.S. in order to double production output of a range of products including fruits and juices, infant foods, vegetable oils, dairy products, canned foods, processed meats and soybean.

In view of the priority given to this sector by the Chinese, and given the relatively limited Canadian export capability in certain sub-sectors, Canada's market development objective will have to be directed to enhance prospects for exports of the following products in which Canada appears to have a competitive edge (listed in order of degree of market potential).

Sub-sector 1: Baking equipment; small and medium scale bakeries.
Sub-sector 2: Animal slaughterhouse and meat packing equipment.
Sub-sector 3: Grain/seed cleaning, handling and storage equipment.
Sub-sector 4: Controlled environment technology.
Sub-sector 5: Oilseed processing equipment (deodorizer)/technology.
Sub-sector 6: Dairy processing equipment.
Sub-sector 7: Potato planting, harvesting and processing..

b) Proposed Market Development Program (FY 1987/88 - 1988/89)

I Resources Requirements

This sector, particularly the grain/seed cleaning, handling and storage equipment sub-sector, already benefits significantly from ongoing Canadian Wheat Board/CIGI programs in China. However, as a follow-up to the industry efforts in this sector it is recommended that attention be provided at the Post to include the following:

1. Identification and cultivation of Chinese decision makers (i.e. firms/ government/provinces) in this sector.

2. Follow up on various export proposals and JV initiatives i.e. monitor developments on behalf of the industry.

3. Monitoring of competitors activities in this sector.

4. Liaising with Hong Kong based firms with China connections in this sector.

II Aid/Trade Projects

The concessional financing package announced during the recent Prime Minister's visit to China could be utilized in parallel with future CIDA activities in the market. CIDA in consultation with the industry could identify at least one project in each sub-sector beginning in 1987/88, and attempt to work together with the Chinese to develop 5 proposals covering all sub-sectors for possible implementation beginning during FYs 1987-1990.

It may be worth noting in this regard that a Canadian subsidiary of a multinational firm specializing in dairy processing has succeeded through CIDA involvement in concluding an agreement to build a processing plant in Tunisia. The firm was able to meet the CIDA requirement for maximum Canadian content.

III Cross-Sectoral Initiatives

Continued involvement of the industry in ministerial missions to and from China is viewed as an important first step in the process of defining market niches. However as matters develop, there is no substitute to direct and specific industry involvement and dialogue with their Chinese counterparts. More importantly, given the distance

and the complexity of working and negotiating with the Chinese, the merit and importance of even greater attention by the post to this sector i.e. the agri-food equipment/machinery sector cannot be overemphasized.

Sector 5

Feedstuffs

Sector 5. Feedstuffs Sector (CITC Code:)

1. Sector Analysis:

a) Main Characteristics of Sector

b) Sub-sector(s) of Prime Interest

c) Import System

d) Distribution System

e) Trade Flows

f) Competition Marketing/Market Development Activities

g) Constraints

h) Canadian Capability

i) Assessment of Potential

j) Summary of Canadian Private Sector Interests and Activities

Sector Strategy

a) Conclusions and Market Development Objective

Because the grain handling infrastructure in China is relatively under developed and the country's feed industry is immature, it is estimated that the Chinese feed industry supplies less then five million tonnes per year of the total quality mixed feeds needed for efficient production of pork, poultry, and cattle. The

establishment since 1978 of large livestock and poultry enterprises near urban areas has intensified the demand for mixed feed to raise efficiency and accelerate livestock development. As a result, the Chinese intend to expand the mixed feed industry to achieve the following:

1. Improve the presently prevailing very low feed conversion ratio.

2. Convert excess grains and oil meals and other ingredients into highly nutritious foods.

3. Improve consumer diets of animal based food products.

In the context of the Seventh Five-Year Plan (1986-1990), the Chinese plan to invest about $500 (U.S.) million to increase compound feed production by 10 fold (i.e. to 50 million tonnes) by 1990. This ambitious expansion program is to be administered by the Ministry of Commerce and involves building between 20-40 concentrate and feed additive plants in addition to an unspecified number of medium and large feed mixing plants. A similar, but much smaller program will be carried out in the rural areas under the administration of the Ministry of Agriculture, Animal Husbandry and Fisheries.

- The planned expansion to produce diary cattle and poultry feeds in the urban areas will require equipment to mix feed ingredients according to desired specification.

- The Chinese feed industry will need technical assistance regarding the use of pre-mixes and feed additivies in formulating balanced rations.

- The Canadian feed industry is of the view that future opportunities for them in China will be in the application of technology. There may be some opportunities for equipment sales, but bigger opportunities will be found for software and management techniques. There is also likely to be continuing opportunities to export micro premixes and flavourings, although this aspect of the business is expected to develop slowly.

- Good potential exists for sales of milk replacers and feed flavorings in China. Two firms are are pursuing opportunities in this sector.

Canada's objective is to facilitate introduction of modern feed technology techniques into China and to convince Chinese decision markers that adoption of Canadian technology and the use of Canadian made compound feed mixing plants can significantly reduce the cost of livestock production. In addition, Canada should be attempting to deliver technical assistance programs comparable to those offered by the U.S.

b) Proposed Market Development Program

Ensure that Canadian feed manufactures firms and related equipment suppliers that have an interest in joint venture and/or co-production arrangements in China are fully aware of and have access to the competitive financing facility that has been implemented by EDC. Ensure that relevant CIDA programs, such as the provision for feasibility studies under the Cooperative Assistance Program, are available to interested feed companies, as appropriate.

- Ensure that Canadian firms are aware of PEMD facilities to assist with initial shipments, market exploration visits, etc. and that these facilities are available to them, as appropriate.

II. Feed Industry Training (FY 1987/88):

It is proposed that this activity would be undertaken by the Canadian International Grains Institute at two or three locations in China. Its objective would be to inform Chinese decision makers about modern feed technology methods (e.g. improving feed conversion ratio and the efficient utilization of low value feed components).

Financing source: DEA and possibly AG CDA

III. Feedstuffs Technology Training for Chinese Feedmill Managers (Proposed by DEA for consideration by Ag Canada* under the JAC program for 1988 and 1989):

This activity, proposed by DEA, could be included for consideration in the forthcoming JAC discussions which will be held in 1987 concerning program for 1988 and 1989.

Sponsor: AG CDA and the Canadian Feed Industry Association

IV. Feed Technology Mission to China (JAC III 2.3 1987):

V. Cross Sectoral Activities

In undertaking the above activities, it is recommended that Canadian firms presently active in the market should take a prominent role in implementing the market development program for this sector. Their involvement in planned cross-sectoral activities should also be considered.

* NOTE: SUGGESTIONS FOR JAC ACTIVITIES IN 1988 AND 1989 ARE INDICATED FOR THE PURPOSE OF ILLUSTRATION ONLY. ALL JAC ACTIVITIES ARE SUBJECT TO NEGOTIATIONS BETWEEN AG CANADA AND MAAHF.

Appendices and References Section

APPENDIX II

Agriculture Canada: Summary of Activities with China 1980-1986

1. MOU signed in Beijing by Minister Whelan in September 1980.

2. J.E.C. held in Beijing in March 1984 and signature of agreements in regards to reciprocal visits between Canada and Gansu province.

3. Incoming delegation from the province of Gansu in August 1984.

4. In November 1984 Agriculture Canada delegation participated in Agro China '84 and visits the provinces of Gansu, Shanghai, Jiangsu and Shenzen.

5. Animal Health Agreements with China signed in March 1985.

6. Hamilton Mission to Beijing, Fujian, Shanghai and Zhejiang (1985).

7. President Li Xiannian Visits Canada in July 1985.

8. In November 1985 Canada and China Implemented a JAC under the MOU and part of the Canadian delegation participated in Ag China '85.

9. Minister Moyer Mission to China, June 1985.

10. Misiter He Kang visit to Canada, August 1986.

11. China Agriculture Bank delegation mission to Canada (sponsored by the Bank of Montreal) August 1986.

12. Shanghai Agriculture Commission and Shanghai Dairy Corporation mission to Canada, July 1986.

13. Vice Governor of Sichnan visit to Canada, 1986.

FOR SINO CANADIAN COOPERATION
IN THE FIELD OF AGRICULTURE
FOR 1986-87
PROPOSED CHINESE PROJECTS

N/N	TITLE AND COOPERATION THEMES	COORDINATING ORGANIZATIONS ON THE CANADIAN SIDE	ON THE SINO SIDE	FORMS OF COOPERATION
1	2	3	4	5
III 1.1	Plant Quarantine and Seed Testing Mission	Agriculture Canada	MAAHF	Exchanges of governme officials, technology plant & seed material Negotiations leading plant quarantine agre
III 1.2	Wheat Study Mission	Agriculture Canada Winnipeg Research Station	MAAHF	To study Canadian bre cultivation & testing technology.
III 1.3	Cooperative Research on rational utilization of dryland water resources	Agriculture Canada Lethbridge Research Station	MAAHF	Study tours, training joint research.
III 1.4	Cooperative Research on Synthesis of marked compound.	Agriculture Canada University of Alberta	MAAHF	Training & exchange o scientists.
III 1.5	Cooperative Research on grasses and grassland management	Agriculture Canada Swift Current Research Station	MAAHF	Exchange of breeding material & scientists Technology training, exchange of scientist

1	2	3	4	5
III 1.6	Study Mission of Canadian labelling, consumer, processing, . distribution & retailing systems.	Agriculture Canada	Ministry of Commerce/ MAAIIF	Study & exchange of officials.
III 1.7	Technical exchange of animal health regulations, procedures and related systems.	Agriculture Canada	MAAIIF	Exchange of officials programs & procedures

P R O G R A M M E

FOR SINO CANADIAN COOPERATION
IN THE FIELD OF AGRICULTURE
FOR 1986-87
PROPOSED CANADIAN PROJECTS

N/N	COOPERATION THEMES	COORDINATING ORGANIZATIONS ON THE CANADIAN SIDE	COORDINATING ORGANIZATIONS ON THE SINO SIDE	FORMS OF COOPERATION
1	2	3	4	5
III 2.1	Plant & Animal Quarantine and Seed Testing Mission	Agriculture Canada	MAAIF	Exchanges of governme officials, technology plant & seed material Negotiations leading t plant quarantine agre
III 2.2	Cereal crops breeding, research	Agriculture Canada	MAAIF	Exchange of germplasm, scientists & technolo
III 2.3	Feed technology mission; forage	Agriculture Canada	MAAIF	Exchange of cultivars, technical information, scientists.
III 2.4	Integrated Pest control mission	Agriculture Canada	MAAIF	Exchange of scientist technology & material relating to pest mana rapeseed & rutabaga di control.
III 2.5	Swine husbandry seminars & breeding mission.	Agriculture Canada	MAAIF	Exchange of technolog scientists, genetic material & technician
III 2.6	Dairy husbandry seminars.	Agriculture Canada	MAAIF	Transfer of Canadian technology and techni lectures in China.

III 2.7	Leafcutter Bee Management	Agriculture Canada	MAAIF	Exchange of technolog scientists.
III 2.8	Plant genetics	Agriculture Canada/ University of Guelph	MAAIF	Exchange of plant and seed genetic material

UNIVERSITY AND PROVINCIAL

P R O G R A M M E

FOR SINO CANADIAN COOPERATION IN THE FIELD OF AGRICULTURE FOR 1986-87

N/N	COOPERATION THEMES	COORDINATING ORGANIZATIONS ON THE CANADIAN SIDE	ON THE SINO SIDE	FORMS OF COOPERATION
1	2	3	4	5
1.	Agriculture management research & teaching systems.	University of Alberta	Lui He Cadre College; August 1st College; N.E. University, Harbin	Symposium Workshops
2.	Educational cooperation	University of Guelph	MAAHF	Diploma degree & post- graduate students to
3.	Educational cooperation	University of British Columbia	MAAHF	Exchange of universit & faculty lecturers i
4.	Educational cooperation	University of Alberta	MAAHF	Student exchange.
5.	Educational cooperation	University of Saskachewan at Saskatoon	MAAHF	Student exchange & fa visits to China.
6.	Crops, husbandry & food processing exchanges	Alberta Agriculture	MAAHF	Scientific, technical exchanges; to be nego
7.	Projects/exchanges; dryland farming, livestock, crops and farm machinery.	Saskatchewan Agriculture	MAAHF	Scientific, technical exchanges; to be nego

INVENTORY OF FEDERAL GOVERNMENT ACTIVITIES IN CHINA (1977-85)

APPENDIX II

INDUSTRY TRADE AND COMMERCE ACTIVITIES IN CHINA

(1978/81)

DATE	MISSION/PROJECT	OBJECTIVE	PARTICIPANTS
Sep/Oct 1978	Technical Seed Mission to China and Japan	To Review China's seed Industry including seed potatoes. Also to determine trade potential	Technical specalists and Association Reps.
Sep/Oct 1978	Beef Improvement Mission to Canada	To study the Canadian Beef Cattle Industry	CEROILS specialists
Sep/79	Beff Cattle Investigation Mission to the PRC	To Determine the possibilities and methods of improving beef cattle in China	Technical at Trade Specialists
Mar/80	Hog Production Mission to China	To investigate possible joint venture in hog production	The Canadian Wheat Board & the three Prairie Pools
Apr/May 1980	F.A.O. Grassland Advisory Team to North China	To investigate pasture improvement possiblities	University of Guelph
Jul/Aug 1980	Dryland Farming Mission to Canada	To study dryland farming practices in Canada	Chinese Ministry of Agriculture specialists
1980	Canada-China Trade Council Mission to China	To discuss establish-ment of a Model Farm	
Jul/Aug 1980	P.R.C. Farm Trainees in Canada (by AgDevco.)	To study Canadian farming techniques (in Sask.)	Chinese Ministry of Agriculture Trainees
Sep/Oct 1980	Ag Devco Follow up Mission to China	To investigate feasibility of establishing a demonstration cereal and beef farm in N.E. China	AgDevco - Specialists
Sep/80	Canadian Minister of Agri. (Whelan) Visit to China	To sign MOU on Technical assistance and the establishment of a demonstration farm in China.	Ag CDA officials

Trade and Commerce Cont'd

Oct/80	Incoming Technicians Visit to Alberta	Further study beef cattle and dryland pasture managment in Alberta	Alberta Agriculture officials
Nov/Dec 1980	Vice-Minister of State farms, and Land Reclamation Mission to Canada	To visit Agribition & study Agriculture in Canada	Chinese farms & Land Reclamation Specialists
Nov/80	International Fund for Agriculture Development to North East China	To determin specs & requirements for a milk and meat project in N.E. China	AgroDev. Beacons- Field (Quebec)
1981	University of Guelph Visit Peking University	Professors Exchange	U of Guelph Professors.
May/81	P.R.C. Farm Trainees to Saskachewan	Farm Training	Chinese farmers
May/Jun 1980	AgroDev Visit to China	To assist Chinese Ministry of Agriculture in writing tender specs for IFAD project	AgroDev.
May/81	Canada-China Trade Council Model farm	Model Farm approved by Council but did not proceed.	
Jun/81	Ag CDA Mission to P.R.C.	To review beef raising techniques forage Managment and investigate possibilities for expanding Forage testing in China	Ag CDA

CANADIAN WHEAT BOARD/CANADIAN INTERNATIONAL GRAINS INSTITUTE ACTIVITIES IN CHINA

Program	Participants
China-Canada Grains Symposium (in China) Nov/Dec, 1975 (2 weeks)	74
Animal Husbandry Mission May/June, 1977 (3 1/2 weeks)	9
Canadian Grain Industry Symposium June/July, 1979 (3 weeks)	12
Milling and Baking Symposium Mar, 1980 (4 days)	12
Milling and Baking Symposium (in China) Oct, 1980 (2 days)	40
Milling and Baking Symposium Mar/Apr, 1981 (3 weeks)	12
Feed Manufacturing and Animal and Poultry Production Technical Mission (in PRC) Sept/Oct, 1982 (4 weeks)	81
Mission of Scientists from Cereals and Oils Chemistry Research Nov/Dec, 1979 (3 weeks)	4
Grain Industry and QC Symposium (in PRC) Mar/Apr, 1982 (1 week)	64
Grain Inspection and QC Symposium Aug, 1982 (3 weeks)	14
Program for Inspectors (Vancouver) Aug/Sept, 1982 (3 weeks)	3
Chinese Study Tour Oct, 1982 (2 weeks)	2
Chinese Weighing Program Sept/Oct, 1983 (2 weeks)	3
Chinese Grain Weighing and Inspection Mar/Apr, 1984 (3 weeks)	16
Chinese Feed Industry, 1984 (2 weeks)	15

China (continued)	Participants
Chinese Baking Program (in PRC) Nov/Dec, 1984 (2 weeks)	95
Grain QC Technology, Mar/Apr, 1985 (3 weeks)	3
Chinese Grain Weighing (in PRC) Nov, 1985 (4 days)	50
International Grain Industry 1980 (3), 81 (6), 83 (2), 84 (2), 85 (3)	16
International Malting and Brewing 1982 (2), 1985 (2)	4
International Feed Industry, 1983	2
International Flour Technology 1984 (1), 85 (2)	3
International Feed and Oilseed, 1985	2
TOTAL NUMBER OF PARTICIPANTS	548

FEDERAL GOVERNMENT ACTIVIES IN CHINA

CIDA

DATE	PROJECT	EXECTING FIRM/AGENCY	OBJECTIVES	POTENTIAL COMMERCIAL BENEFITS
I. CIDA Bilateral Projection Heilongjiang Province				
	1. Tanggu Animal Quarantine - Tianjin ($500,000 - 4 yr)	Ag CDA	Animal Quarantine (Training in Canada and Purchase of some equipment)	Export of Livestock (Dairy Cattle, swine, semin) and Poultry.
	2. Heilongjiang Seed Improvement ($990,000 - 4 yr)	Can. Seed Trade Association	Improve seed breeding techniques management (Training in Mexico and Canada)	Exports of Can. Forage seed variaties (med term). Exports of Can. Corn hybrid seeds and inbred-line (near term). Mgt /consultants projects. Seed cleaning and processing equip. projects.
	3. Harbin Cattle ($2,005,000 - 5 yr)	Semex Canada	Animal handling & Semen processing, and embryo transfer (Purchase of Cdn semen, training in Cda & China	Exports of semen and A.I equipment. Management/ consultants projects (eg. sire proving system).
	4. Sate Farm 852 Dairy Forage - Soil Improvements ($3,062,000 5 yr)	Ag Devco	Develop Model Dairy herds	Exports of Forage seeds and Dairy Cattle (Med term) Mgt. Consultants projects (Soil Improvement
	5. August 1st Land Reclamation University ($4,627,000 - 5 yr)	Black Dragon River Consortium (Univ of Alberta Guelph, & Olds College)	Carry out applied Research to increase land productivity training & upgrading curriculum	Transfer of Technology
	6. Liu He Cadre Training College	Black Dragon Rivers	Training for State Farm Managers	

Cont'd: FEDERAL GOVERNMENT ACTIVITIES - CIDA

DATE	PROJECT	EXECTING FIRM/AGENCY	OBJECTIVES	POTENTIAL COMMERCIAL BENEFITS
II. CIDA INSTITUTIONAL COOPERATION AND DEVELOPMENT SERVICES				
	1. Joint Venture in Grassland Ecology	Univ. of Sask., Guelph, & North Eastern Normal Univ. Changchum	Improve Grassland Ecology & provide advanced training to students and staff	Transfer of Technology
	2. Nitrogen fixing Compounds	Univ. of Regina, Physical Chemistry Research Inst. (U. of Xiamen)	Introduce Modern Nitrogen Fixation Technology	Transfer of Technology
	3. Potash Agronmic Program	Potash & Phosphat Inst. of Cda & Bureau of Science and Technology	Identify Potash deficient areas in China. Increase knowledge of potential benefits of Potash	Increase potash and Phosphat Exports
	4. University of Guelph and Beijing Agricultural University (BAU)	Univ. of Guelph and BAU	Provide advanced training in in Animal/Poultry veterinary and library info services	Management/Consultants projects. Export of livestock and Poultry.

APPENDIX IV

EXTERNAL AFFAIRS ACTIVITIES IN CHINA

(1982/86)

DATE	MISSION/PROJECT	OBJECTIVE	PARTICIPANTS
1982/83	Agicultural on Road Building Equipment Mission from China (Project No. 82/48667)		
1983/84	Veterinary Mission from China (Project No. 83/18435)		
Nov/84	Ag China 84 (Info 8ooth)		
Nov/84			
1984 Apr 84	Poultry Processing Equipment Mission from China (Project No. 84/18680)		
1984/85	8eef Cattle Mission from China		
1984/85	Canola Technical Mission to China		
Nov/85	Ag China 85		

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE
ACTIVITIES IN CHINA (ONGOING)

PROJECT/SUBJECT	CHINESE MINISTRY/ INSTITUTION	GRANT AMOUNT
Rapeseed breeding and cultivation	Ministry of Agriculture, Beijing	550,900
Cultivation systems yield, fertility, practices, breeding	Chinese Academy of Agricultural Sciences, Beijing	414,400
Fish production/ fertilizing	Ministry of Agriculture, Animal Husbandry and Fisheries, Beijing	319,100
Fish culture, breeding, production	Zhongshan University, Guangzhou	307,300
Fish production, animal genetics	Shanghai Fisheries College, Shanghai	625,700
Farming systems, fishery management, aquaculture	Regional Lead Centre of China (RLCC), Wuxi	115,500
Farming systems, fish culture, food production	Regional Lead Centre of China (RLCC), Wuxi	238,000
Agricultural information, documentation, information services	Chinese Academy of Agricultural Sciences (CAAS), Beijing	393,704

TOTAL IDRC PROJECTS - 31

TOTAL IDRC PROJECTS DEVOTED TO
AGRICULTURE, FISH AND FOOD PRODUCTS - 8

Ag Canada Input into the 1987/88 Mission Planning Exercise

South East Asia

Animal Health with China: Continued Support in Servicing Export Market and Review of Animal Health Requirements (outgoing)

Incoming Technical Pork Mission from Japan

Outgoing Breeding Swine Technical Mission to Japan, Thailand and Malaysia

Canola Technical Mission to Korea (In Cooperation With Grain Marketing Bureau/Follow up to 1986 Incoming)

Outgoing Feed Study Mission to Thailand and Singapore

Outgoing Industry/Government Beef and Pork Access Project to the Philippines, Japan, Korea, Singapore and Australia

Development and Finalization of Plant Health Agreements with China (1 outgoing and 1 incoming)

Final Modifications to Animal Health Protocols with China (1 outgoing & possibly 1 incoming) (1)

Outgoing Swine Technical Mission (JAC III 2.5) to China (2)

Canada-China Joint Agricultural Committee (Preparatory Meeting)

Outgoing Cereal Crops Breeding Mission (JAC III 2.2) to China

Outgoing Feed Technology Mission (JAC III 2.3) to China (3)

Outgoing Pest Management Mission (JAC III 2.4) to China

Outgoing Leafcutter Bee Management Mission (JAC III 2.7) to China

Outgoing Plant Genetics Mission (JAC III 2.8) to China

Incoming Wheat Study Mission (JAC III 1.2) from China

Plants of commercial interest to China

Our files indicate that Chinese have shown an interest in the following plant material:

Ginseng
Barley
Canola
Sunflowers
Corn
Potatoes (seed)
Vegetable seeds such as Asparagus
Tomato
Cauliflower
Sweet pepper
Carrot
Watermelon
Cantoloupe
Grapes
Malting barley
Rose bushes

Forage seeds such as Sanfoin
Lawn seed
Kentucky blue grass
Creeping red fescue
Forage grasses
Turf grasses
Flax seeds
Other cold/soft tolerant and drought-resistant seeds

Note: Tomato, asparagus, sweet pepper seeds were bought in 1985.

Other material: Grape vine and root nursery stock, other nursery stock (apple trees), tobacco (Flue cured).

Plants of interest to Canada

Species	Specific Interest
Barley	Early maturity, high yield and resistance to loose smat (Ustilago nuda) net blotch (Pyrenophora Teres) spot blotch (Helnunthosporium sativum) scald (Rhyncosporium secalis) leaf rust and stem rust (Puccinia spp.)
Brassica root crops (i.e. rutabaga)	Resistance to clubroot (Plasmodiophora brassicae)
Potato	Resistance to potato wart (Synchytrium endobioticum)
Wheat	Early maturity, winter hardiness, short straw, lodging resistance and resistance to Fusarium, Septoria, mildew and snow mold
Rape	Biological control of Sclerotinia
Range land	Grasshopper problems
Buckwheat	New germplasm
Ornamental trees and strubs	New species availability
Tree fruits (Peaches)	Cold hardy root stocks
Soybeans	Early maturity
Forage Crops	Red clover and other trifolium species.

ORGANIZATION CHART OF THE MINISTRY OF AGRICULTURE, ANIMAL HUSBANDRY AND FISHERY

China International Corporation for International Gooperation in Agriculture, Livestock and Fisheries

China National State Farms Corporation of Agriculture. Industry and Commerce Complex

China State Farms Corporation for Import and Export Service

China Natioal Corporation of Animal Husbandry. Industry and Commerce Complex

China National Animal Breeding Stock Import and Export Corporation

China National Allied Corporation of Township Enterprises

China National Marine Fishery Corporation

China National Aquaculture Corporation

China Seed Corporation

Central Institute of Plant and Animal Quarantine. People's Republic of China

Institute of Agricultural Chemicals Control.People's Republic of China

Agricultural Publishing House

National Agricultural Exhibition Hall

China Agricultural Film Studio

The Control Institute of Veterinary Bioproducts and Pharmaceuticals

National Certification Centre for Agricultural Machinery

APPENDIX VI

INTERNATIONAL INVOLVEMENT IN CHINA'S AGRICULTURE SECTOR

APPENDIX VI

INTERNATIONAL INVOLVEMENT IN CHINA'S AGRICULTURE SECTOR

PRODUCT	COUNTRY	PROJECT	OBJECTIVE	LOCATION
Milling	U.S	Flour mill opened in 1985.Capacity of 150 MT/day	Prototype for other mills in China. Also an attempt to standardize flour specs for Chinese wheat foods & serve as training facility	Beijing
	U.S.	Feed grain mills (17) @ $4 million	To assure U.S. growers of substantial share of future import requirements since cultivation of feed grains in China seen as too expensive to be economic	Unspecified
Bakeries	Japan	Bakery and convenience food equipment trade show to be held in fall 1986.	To showcase equipment for benefit of local & provincial bakery equipment purchasers.	Beijing
Oilseeds	U.S.	Continental Grain & Sanho feasibility study for $3 million soybean/ oil factory.	Factory to handle 400,000 MT beans or 68,000 MT of oil/yr. 75% of productiion to be exported.	Shenzhen

lseeds	Japan	Nisshin Oils Mills & Dalian Oil & Fat Industry joint venture to produce edible oil.	Mill will process 1,000 MT/day by 1987. Mill will use soybeans or other oilseeds. To be sold in China and Southeast Asia & Japan	Dalian Special Economic Zone
Malt	France/ Belgium	Brewery built by Technip/Artois	Malthouse will treat 11,000 MT/yr of barley Brewery will produce 13.2 million gals./yr. Technip to receive beer as payment.	Guangzhou
	France	Joint venture (8 French firms +1 Chinese) to build brewery. Investment of Rmb 78.23 mil.	Produce 50,000 MT/yr of beer for domestic sale. Exports of 2000 MT/yr of barley.	Ningbao
	Germany	German-Chinese joint venture to produce beer/malt Investment of $312 million	Produce 12 million gls./yr.by 1987. Beer to be sold in China and exported to other Asian countries also.	Wuhan,Hubei
	Denmark Sweden	Carlsberg signed $10 million contract for equipment & training for new HuaDu Brewery. Contract bertween East Asiatic Co. and Beijing General Brewery.	Production of 100,000 MT per year.	Beijing
	Japan	Suntory holds 50% of joint venture to produce beer & malt. Initial capital of $12 million Suntory to supply mgt., technicians & technology.	Increase capacity of existing brewery from 5 million to 30 million litres Also will produce 30,000 MT of malt	Jiangsu

Beer & Malt	Germany (FRG)	Beer bottling equipment has beem supplired to Qingdao Brewery.	To expand capacity from 50,000 to 100,000 MT/yr.	Qingdao
	Romania	Beer bottling equipment has been supplied to Heilongjiang.	Add 11,000 MT to annual capacity.	Heilongjiang
	Hong Kong	China Beer Co. of Hong Kong to pay Japanese company for Qingdao production line in return for payment in beer.	Line to pack 15,000 MT of canned beer.	Qingdao
	Germany (East)	Complete bottling line sold to Shenyang Brewery.	Upgrade production facility.	Shenyang
	Japan	Joint ventures formed by Yamamura Glass and Chinese group to establish breweries.	Two billion yen worth of production lines imported from Japan.	Shenyang Liaoning Xi'ning Ningxia Hui
	Japan	Sapporo Co. will take part in project to grow hops.	Grow hops.	Xinjian Uygur
Meat & Poultry	Japan	Experts on meat processing & distribution to be dispatched to Meat Food Research Center of China. Being built with grant from Japan.	Carry out systematic studies on meat and do training.	Beijing

ultry	Hungary	All-in-one poultry operation using Dutch, German, Hungarian equipment on barter agreement basis.	Increase production to 30,000 MT per year. Earn foreign exchange through exports.	Beijing
Dairy Products	Denmark	Turnkey dairy equipment for milk powder factory. Largest plant in China financed by 25 yr. interest-free loan from Danish government.	Produce 25 MT of skim milk powder daily.	Heilongjiang
	U.S.	Model dairy farm A $5 million contract given to Transamerica Agric. Dev't. Package includes equipment, stock, trailning and construction.	Supply domestic and Hong Kong markets.	Guangzhou
	Australia	Milk powder and baby food plant worth $4 million.	Increase production	Harbin
	New Zealand	Agrement to manufacture and develop dairy machinery.	Export up to 2,000 units/yr.	Nanjing
	Switzerland	J.V. Agreement to establish milk factory (47.5 m RMB)	New Production	Shuangcheng, Heilongjiang.
Convenience Foods	U.S.	Orchid Foods joint venture to produce hamburgers and hot dogs. (!)	New production.	Tianjin

Convenience Foods	U.S.	Kentucky Fried Chicken to open fast-food restaurants.	New market.	Beijing
	Hong Kong	New processing equipment installed in existing plants.	Introduce new "instant noodles" for soup. Demand has led to 30% increase in production.	Shanghai
	Japan	Joint venture between Sapporo Breweries and Eikid Baking Co.	Coffee shops and bakeries to be established.	Dalian Beijing
	Japan	Joint venture between Nissin Confectionery & Quindav Second Foodstuff Factory	Produce 30,00 MT of cookies per year 25% of production to be exported.	Quindav
Vegetables Fruit	Australia	Joint venture with Henry Jones Co.	Produce, process and market pineapples. 90% of production to be exported.	Unspecified
	U.S.	Compensation agreement with Green Giant.	Green Giant buys canned and jarred mushrooms in exchange for sales jars and closures.	Shanghai & Hnagzhou
	U.S.	Beatrice Foods (joint venture)	Produce canned vegetables, soft drinks snack foods, biscuits and ice cream.	Unspecified
	U.S.	Experimental farm contract	Cultivate tomatoes sweet corn, asparagus and sweet peas.	Unspecified

by Food	U.S.	Joint venture with H.J.Heinz who will provide $4.2 million of $7 million total investment.	Produce 2,500 MT/yr. of baby food and do research into food nutrition.	Unspecified
Packaging	Sweden	Tetra Brik aseptic packaging line.	Lengthen shelf life of dairy products. Package other foods in flexible retort pouches.	Guangdong Beijing Shanghai

SOURCES:

1. Foreign Agriculture, USDA, November 1985
2. The Japan Economic Journal, October and December 1985
3. Business China, September 1985
4. China Trade Report, June 1985
5. China Business Review, March 1983
6. China Daily, December 1985
7. Intertrade, August 1985

equipment, the Chinese are likely to request some form of investment in a joint venture or co-production arrangement. The Chinese feel that foreign firms supplying equipment and technology on a straight sale basis have little incentive to ensure that the equipment is installed and operated correctly. An investment arrangement indicates that the foreign company is interested in developing a lasting relationship, and supplies the industry with much needed capital. A shortage of funds is probably the major obstacle facing domestic food processors in China. The industry's fixed assets stood at only $14 billion in late 1985. Chinese food companies often have difficulty acquiring large sums of foreign exchange, unless the products they produce are specifically targeted in the five-year plan or are for the export market.

Several large US companies have already made significant investments in China (*see* chart). For instance, Nabisco Brands, Inc., among others, is venturing into the Western snack food market. Their joint venture with the Yili Food Company in Beijing will produce Ritz and Premium Saltine crackers, and market them under a combined Yili and Nabisco trademark. Most of the products will be sold domestically, but some will be exported to balance the joint venture's foreign exchange requirements. Scheduled to come onstream by mid-1986, the venture's initial annual output will be 5,000 tonnes of biscuits—with at least 500 tonnes marked for export.

The H. J. Heinz Company has formed a joint venture to produce instant baby foods, and is also getting involved in a number of other areas—the company has done research on growing tomatoes in China over the last few years, including varieties of top-quality hydroponic tomatoes. Heinz also recently established an institution devoted to the nutritional sciences, located within the joint venture's baby food factory.

Foreign investors must be willing to brave the tangle of food processing bureaucracy, and adapt to often difficult factory conditions. Technicians currently comprise only about 1 percent of the food industry workforce. And, as in other sectors of the Chinese economy, foreign investors will have to deal with the problem of how to repatriate profits made in China. Joint ventures will be expected to export a certain percentage of their output to balance their needs for foreign exchange.

On the bright side, food products enjoy priority in the Seventh Five-Year Plan, so companies investing in the industry are likely to receive tax incentives, guaranteed supplies of raw materials, and in some cases, preferential loan treatment. In the long term, China is a market many firms feel they cannot afford to pass up. Retail sales of food products grew from $46.7 billion in 1983 to $55.2 billion in 1984, and will keep rising. As wages rise, more money will be spent on food products. As long as consumerism plays a bigger role in China's economy, food processing will be an area of opportunity.

US–CHINA FOOD PROCESSING SALES AND VENTURES (SINCE 1984)

US Party/Chinese Party	Arrangement/Value	Date
Beatrice Foods Company/Guangzhou ITIC and Guangzhou Food Industry Corporation (Beatrice 50%, ITIC 10%, Guangzhou Food Industry Corp. 40%)	Joint venture to produce canned fruits, vegetables, soft drinks, sherbet, wafers. $20 million. Duration: 15 years.	Start up 10/84
Coca-Cola Company/Construction and Development Corp. of Xiamen SEZ	Licensing agreement to bottle Coca-Cola, Fanta Orange, and Sprite.	10/84
Coca-Cola Company/Zhuhai Beverage Company and Macao Beverage Company	Licensing agreement to bottle Coca-Cola, Fanta Orange, and Sprite beverages.	6/85
DeFrancisci Machine Corp/NA	Sale of pasta-making machines.	5/84
FMC Corporation/NA	Leasing 19 citrus juice extractors to several end users.	8/84
General Foods Corporation (US)/ Dongguan County Starch Factory (50%-50%)	Established joint venture, the Dongmei Food Company, to raise cassava to make starch for export and sale in the PRC. Duration: 15 years.	1/85
General Foods Corp./Tianmei Food Company, Tianjin (50%-50%)	Established joint venture, the Great Wall Food Factory, to produce instant coffee and breakfast drink for PRC consumption.	Est. 11/84
General Foods Corp./Guangzhou Dairy Products Factory, Guangzhou (50%-50%)	Established joint venture company, the Guangzhou Beverage Corp., to produce instant coffee for PRC consumption.	10/85
H.J. Heinz Co./United Food Enterprise Inc. (Guangdong) and the General Corporation of Agriculture, Industry, and Commerce (Guangdong) (US 60%, PRC 40%)	Formed joint venture, Heinz-UFE Ltd., to produce high-nutrition cereal for infants, primarily for use in the PRC. $10 million.	To begin mid-1986
Harry Langerman/Shenzhen (US 33%, PRC 67%)	Investment of $300,000 for fast food restaurant chain.	9/85
George J. Meyer Manufacturing/NA	Awarded contract for soft drink factory.	9/85
Orchid Foods Int'l, Inc./Tianjin (US 40%-PRC 60%)	Signed joint venture agreement to set up Tianjin Orchid Fast Food Co. $300,000. Duration: 10 years.	3/85
Nabisco Brands, Inc./Yili Foods Co. (Beijing), (US 51%, PRC 49%)	Set up joint venture, the Yili-Nabisco Biscuit and Food Co. Ltd., to produce biscuits and crackers. $8.8 million.	3/85
Neumunz Inc./Shanghai Foreign Trade Corporation	Awarded a contract for design, supply, and installation of a peanut processing plant.	6/84
Pepsi-Cola Int'l/Guangzhou Xinjiao Agro-Industrial Business Co. and Guangzhou Foreign Trade Corp.	Opened a joint venture bottling plant, the Guangzhou Beverage Factory, to produce 10 million cases of soft drinks annually.	2/85
Tyler Refrigeration Corp., (subsidiary of American Standard Inc.)/Luoyang Machinery Factory, Henan, CNTIC	Licensing agreement to manufacture refrigerated display cases, walk-in coolers, freezers.	7/85

APPENDIX VII

Working Groups' Conclusions and Recommendations

Meeting China's Agribusiness Challenge:

A Strategic Meeting

April 29-30, 1986
Delta Ottawa Hotel
Ottawa, Canada

INTRODUCTION

Conference participants were assigned to working groups, each with a leader and a rapporteur. Each group discussed the same topics: (a) export financing; (b) priorities for commodities and other exports; (c) geographic priorities and (d) government priorities. The points under each heading are a summary of the recommendations brought forth by the groups. This draft of the conclusions and recommendations is being circulated *for dicussion purposes only and to solicit comments*. The final list will be included in the conference proceedings to be published at a later date.

Please note that an attempt has been made to indicate when these conclusions or recommendations are the opinions of individuals rather than groups. In most cases, they were kept as close as possible to the original; however, some have been modified in order to reflect the consensus of opinions in the different working groups.

1.0 EXPORT FINANCING

1.1 There was general agreement that the 8.8% EDC rate is non competitive with that offered by others, e.g. Japan and EEC countries. As a result, the existing EDC line of credit has not been fully utilized.

1.2 There is a need for concessional financing and/or mixed credit arrangements, also more flexibility in EDC financing would be desirable. A program of concessional credit should not be administered by CIDA but rather by a commercial bank (or EDC), because it should be trade-related and not be construed as aid. The EDC could perhaps provide a guarantee if credit is provided by a commercial bank.

1.3 Government funded projects should perhaps be evaluated on a cost-benefit basis. For example, how many jobs are created in Canada by a particular project?

1.4 Exporters are encouraged by EDC to have a financing package in place prior to arriving in China. However, exporters find that this is not always possible due to requirements for information which can only be determined during negotiations with Chinese counterparts.

1.5 All groups felt countertrade has been neglected by the federal government. Canadian companies need better access to countertrade and information to engage in it. The government's role could be to supply information on commodities available for countertrade. Given that there may be an increasing demand for counter-trade, the government should perhaps reconsider this question. The longer Canada is involved with trading in China the more pressure there will be on Canada to buy Chinese goods and countertrade is one avenue which might facilitate purchases. Countertrade should be discussed on a government to government basis.

1.6 Agribusiness should be given every opportunity to capitalize on the fact that Canada is a preferred trading partner of China because of Canada's long-standing relationship with China. Better information should be made available by EDC on competitor's financing rates, programs, etc.

1.7 Before leaving Canada trade missions should have a complete briefing on what Canada has to offer in terms of financing for specific commodities, as well as Chinese negotiating style, market studies, etc.

2.0 PRIORITIES FOR COMMODITIES AND OTHER EXPORTS

2.1 In the short term, Canada has obvious market advantage in grain and grain storage; fertilizer; livestock; dairy management and poultry stock. Exports of animal and plant genetic material should also be an area of future concentration.

2.2 China appears to be becoming self sufficient in wheat and coarse grains and it is therefore important that Canada diversify the future

product line made available to the Chinese. However, it is unwise for Canada to place too much emphasis on any one particular commodity. One group stated that very little attention should be paid to crop production as China will eventually compete against us in that area; however, another group held a conflicting opinion that the average consumer demand of the Chinese will increase faster than their ability to produce, thereby leaving a continuing market for Canadian firms.

2.3 Food processing and storage technology is another area of expertise which could be made available for export to China. Canada has also a good potential in food irradiation technology. However, it is recognized that Canada is very weak in its production capacity of food processing equipment and it should not be emphasized too much.

2.4 One group felt that exporting of Canadian agricultural machinery to China appears to be a fruitless exercise.

2.5 The private sector should set priorities and the government should be in a position to respond to and support these initiatives. Activities could perhaps be handled by commodity organizations with a sectoral emphasis (e.g. livestock).

2.6 One group suggested that officers at the Canadian Embassy in China should establish a priority for incoming requests; the Embassy should decline requests for non-competitive goods and services and should be moving toward priority commodity lists.

2.7 CIDA should not rely totally on Chinese priorities.

2.8 Canada might be exporting technology to her ultimate disadvantage. It is therefore important that she keep abreast of new technological developments, with Research and Development progressing fast enough to keep ahead of technological exports.

2.9 There is a strong need for companies to work together as consortia.

2.10 One participant felt that there is no commercial benefit in the areas of animal health and nutrition, range management, soil and land surveying and seed production.

3.0 GEOGRAPHIC PRIORITIES

3.1 There was general agreement that exporters should concentrate on those areas where there are best business prospects.

3.2 The areas in China which are compatible with the Canadian climate (e.g. Northern China) are worth emphasizing for seeds and livestock. However, for many other exports with a high technology component, geographical diversification should be encouraged. The government could play a role here by giving more information to the business sector and the sector should identify the geographical priorities.

3.3 At the present time there is too much duplication amongst provinces. The twinning arrangements by the provinces lead to unnecessary interprovincial competition which reflects Canada's interprovincial complexities. Furthermore, twinning arrangements with one province may limit the future activities with other Chinese provinces.

4.0 GOVERNMENT PRIORITIES

4.1 Specific contacts in China should be better identified.

4.2 More coordination amongst government departments is required.

4.3 Many groups said that additional Canadian officers with agricultural expertise are required in the Embassy. There is some mistrust of Canadian Embassy personnel regarding confidentiality. The trade sector should be separated from the political sector in the Embassy.

4.4 The government should facilitate Canadian business students to obtain experience in China.

4.5 The government should provide office space in Beijing and/or Shanghai (and perhaps elsewhere in the long-term) with typists, communication equipment, translation services, travel assistance and conference facilities which Canadian companies or provinces could lease by the month or year, on a user-fee basis.

4.6 Government assistance should be well targeted to avoid duplication of efforts, especially federal-provincial overlap. Federal and provincial governments should meet two or three times a year.

4.7 The education/research approach in China is extremely important. Courses should emphasize practical, hands-on experience. The importance of scientific exchanges, training and research facilities, as support to Canadian sales, was emphasized. The support of Chinese students studying in Canada also has a high pay off.

4.8 Although one group suggested establishing a permanent Model Farm in China for Canadian agribusiness interests, it was also mentioned that such a project (e.g. dairy experimental farm) could be too costly for Canadian public funds.

4.9 It was stated that a certain amount of government financial support is made available to inexperienced exporters. The government should ensure that recipients have the resources to pursue future activities in that market. CIDA and other programs should give priority to firms with a proven track record. Also projects that are not commercially viable in the private sector should not be adopted by the government.

4.10 The Chinese should be encouraged to adopt international commercial standards (e.g. sizing, quality control, seed quality, etc).

4.11 The Canada-China Trade Council could serve the private sector better if it had a broader agricultural base.

4.12 The government should put its efforts into dealing with the regulatory aspects that facilitate trade. Government technical experts serving as negotiators of trade agreements should be well trained and should monitor the situation in order that things run smoothly after agreements have been signed.

4.13 The Canadian government should provide more legal guidance to Canadians dealing with the Chinese.

4.14 The government should help the private sector to keep informed of contracts available and of activities supported by the World Bank (IBRD) and the Asian Development Bank (ADB).

4.15 The federal and provincial governments should clearly establish which Canadian regions have a comparative advantage in which commodities.

4.16 It was pointed out in one group that staff cutbacks in governmental inspection services have been detrimental to exporters (e.g. livestock). Ideally, these positions should be reinstated and, if not possible, they should be filled by contracting private veterinarians.

4.17 There is a lack of information available to the private sector. A directory of China "specialists" in different levels of government would be useful. Information on government programs should be reported and circulated periodically.

4.18 The credibility and visibility of trade missions is important. Selection of appropriate participants was criticized. The selection should be based on the person's competence and ability. Perhaps participants should pay a larger share of their costs and be better briefed.

4.19 The Chinese in-coming missions with appropriate selected people, were noted as extremely valuable.

Incoming missions in poultry and livestock management were suggested.

4.20 Many private companies in Canada expect the government to do too much and it is therefore important that the private sector take more initiative in developing this market. Private sector firms could make more effort to access Chinese periodicals and other publications containing trade information.

4.21 One group mentioned that business is being reduced through other countries' government to govern ment purchasing agreements, therefore the Canadian Government should use more bilateral agreements to enhance sales on a government to government basis.

4.22 The private sector should be involved in CIDA's planning process.

4.23 All groups agreed that follow-up to this conference is necessary. A follow-up meeting should be organized within 12 to 24 months this time using the sectoral approach (e.g. dairy, grains, livestock, etc). It could include Chinese counterparts or be enlarged to the Pacific Rim.

AGRI FOOD TRADE FLOWS

1. IMPORTS AND EXPORTS

2. IMPORT/EXPORT TRADE WITH CANADA

CHINA'S EXPORTS BY REGION

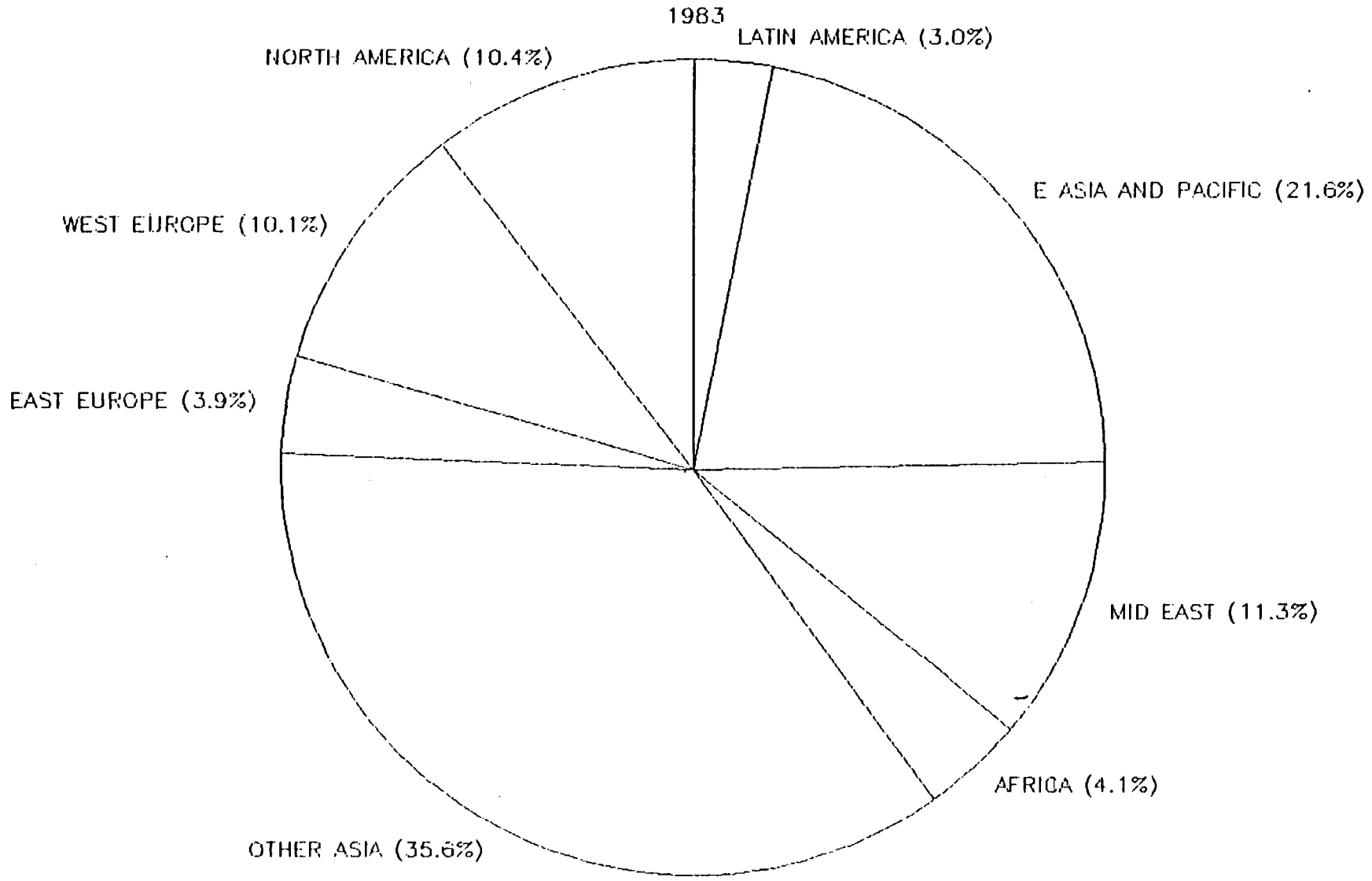


FIGURE 1

SOURCE: U.S. DEPARTMENT OF COMMERCE, 1984

CHINA'S EXPORTS BY REGION

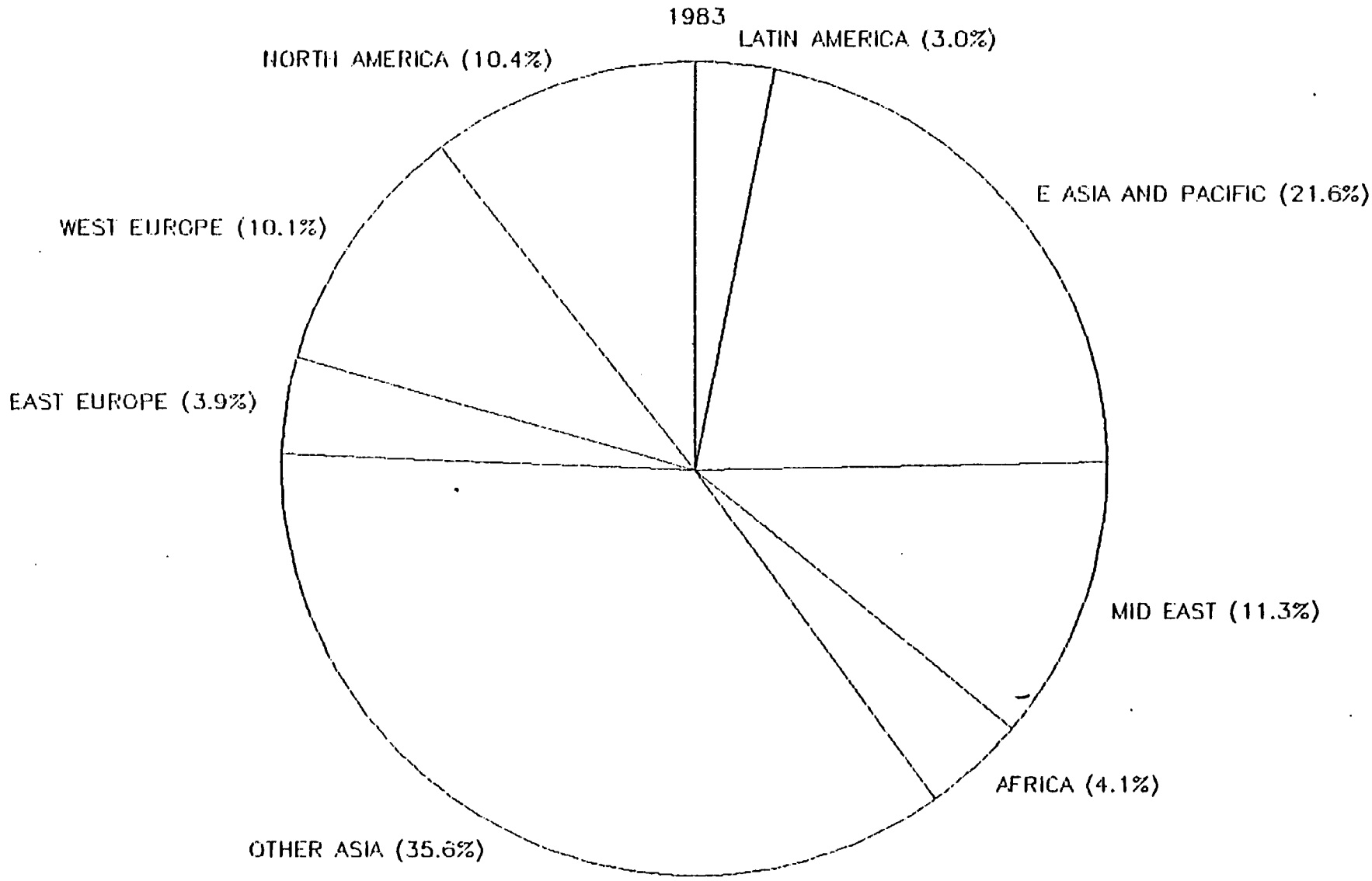


FIGURE 1

SOURCE: U.S. DEPARTMENT OF COMMERCE, 1984

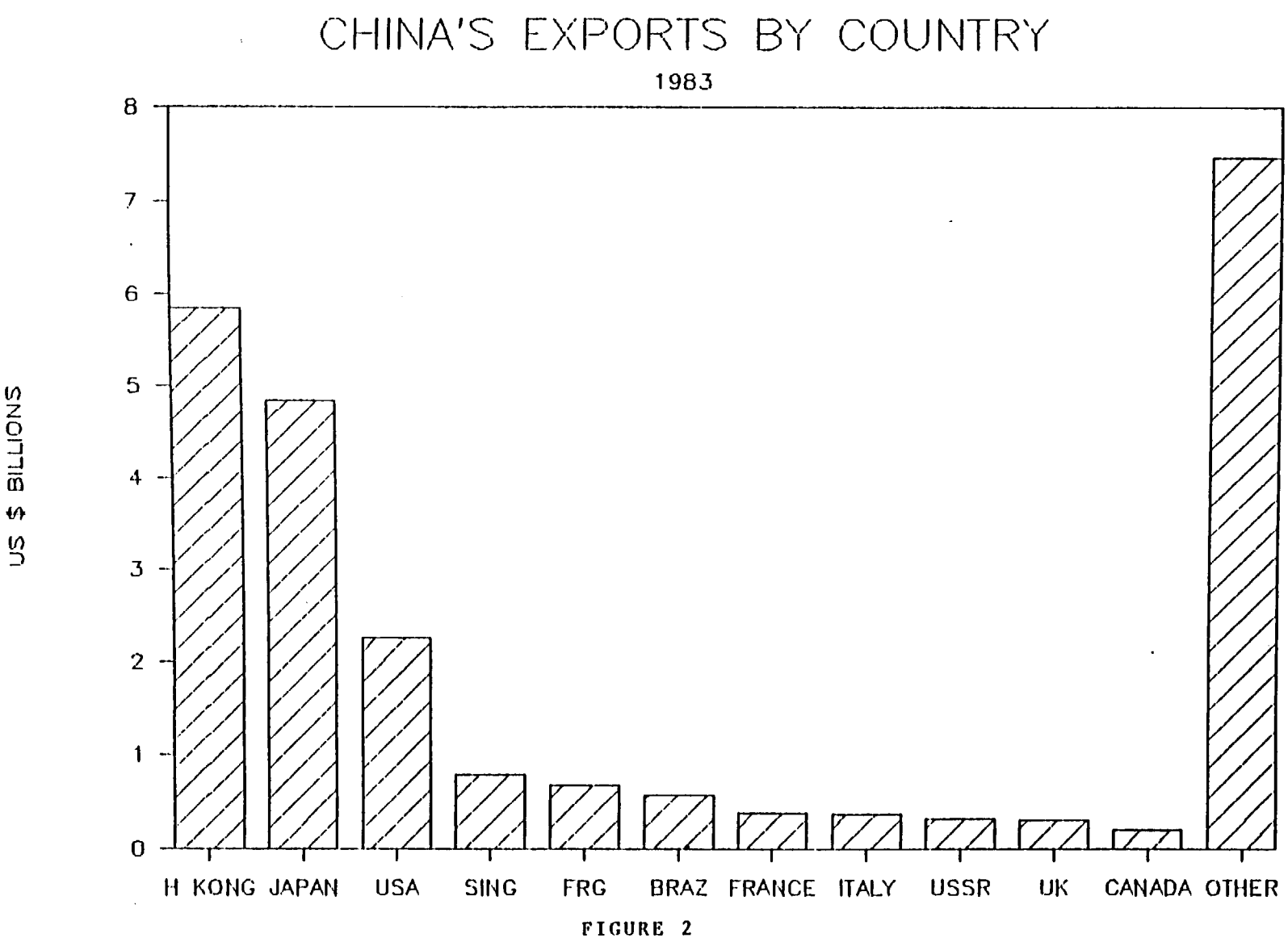


FIGURE 2

SOURCE: U.S. DEPARTMENT OF COMMERCE, 1984

CHINA'S IMPORTS BY REGION

1983

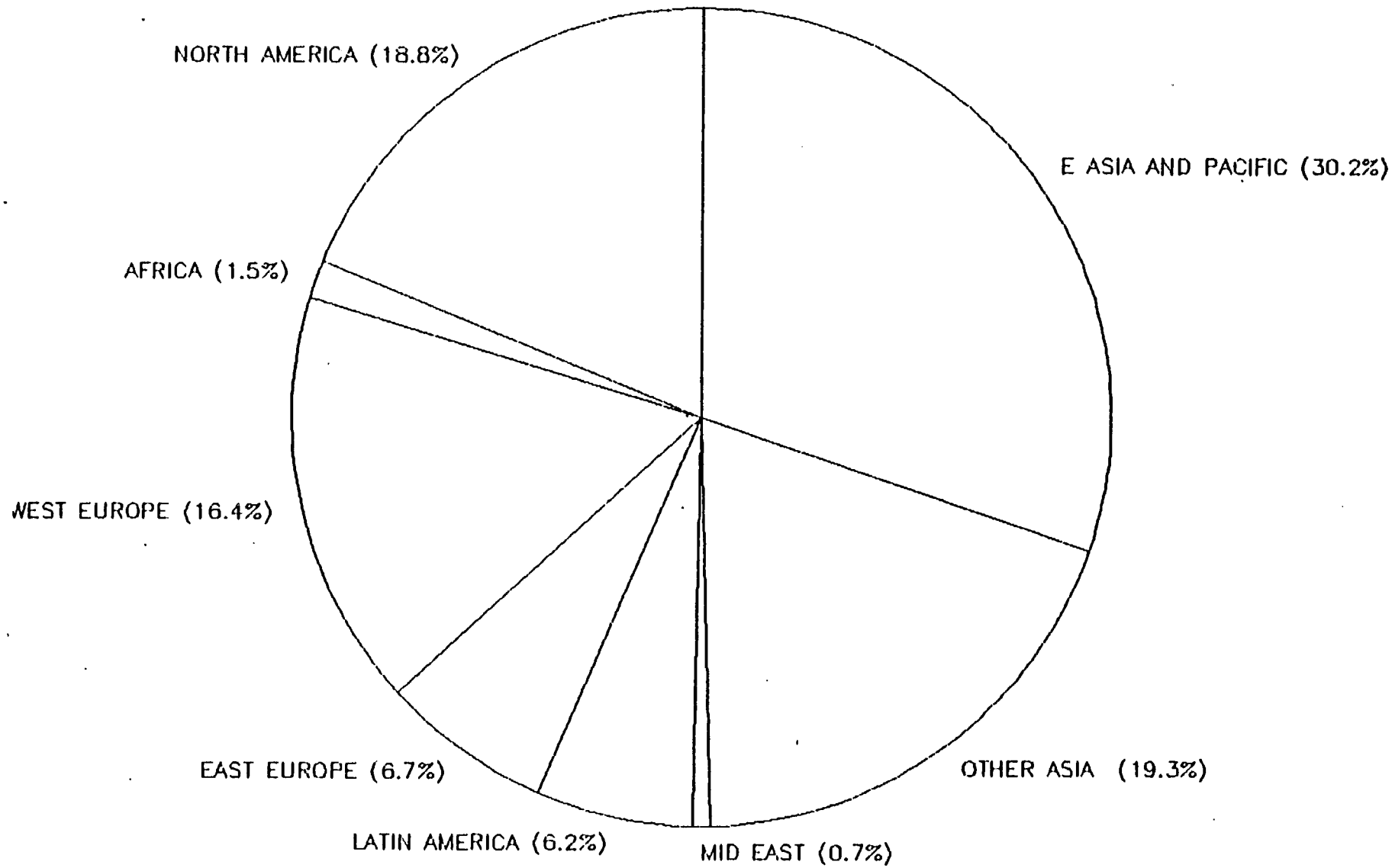


FIGURE 3

SOURCE: U.S. DEPARTMENT OF COMMERCE, 1984

SOURCE: U.S. DEPARTMENT OF COMMERCE, 1984

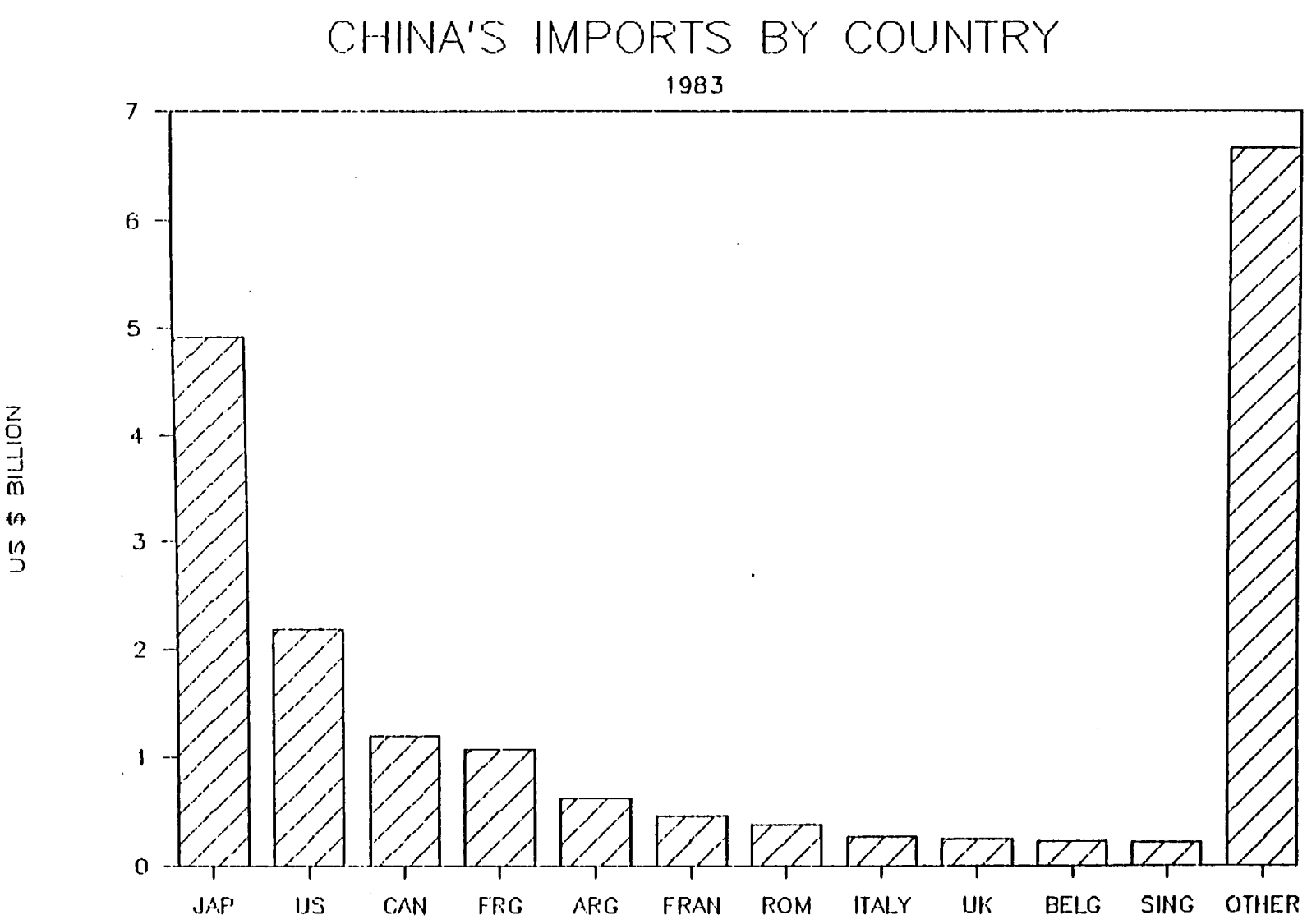


FIGURE 4

SOURCE: U.S. DEPARTMENT OF COMMERCE, 1984

World Exports of Live Animals, Livestock and Plant Seeds to China

The Following is a Summary Analysis of UN Statistics (1982-1984) and Statistics Canada Data (1985-1986)

1) Total Live Animal Exports to China:

According to recent UN Statistics, China's imports of live animals increased from $2 million (U.S.) in 1982 to $3 million (U.S.) in 1984 (see table #1). Canada exported $9,000 (U.S.) or 0.30% of the market (see table #1). Hong Kong was the main exporter of live animals in 1982 and 1983 with a high of 66% market share. Hong Kong is considered a trans-shipment post and it is assumed that exports through Hong Kong originate from other nations. In 1984, Denmark entered the market with a 35% market share. Hong Kong's market share was 26% in 1984.

Following the signing of the Animal Health Agreement between Canada and China, exports of livestock to China increased in 1985 and 1986 (January-April).

Commodity	1985	1986 Jan.-Apr.
	($,000)	
Cattle, Dairy, Purebred	96	398
Swine, Purebred	-	80
Baby Chicks	201	135
Animal Semen, bovine, dairy	897	-

(i) Total exports of bovine species (purebred) to China:

In 1984, China purchased $1.8 million (U.S.) of bovine species for breeding from the world market (see table #2). Denmark was the leading supplier to China with a 60% market share. West Germany and the Netherlands placed second and third with 21% and 17% shares respectively. Canada had no exports of this commodity to China in the period from 1982 to 1984.

(ii) Total exports of swine (live) to China:

China purchased $51,000 (U.S.) of swine in 1984 (see table #3). Again, Hong Kong played a key role in trade, exporting 75% of the above figure to China while the remainder was supplied by France. China did not import swine in 1983. Canada did not export swine to China in the period 1982-1984.

(iii) Total exports of poultry (live) to China:

In 1984, China imported 77% of its purchases of poultry in the world market from Hong Kong. It is noted that exports of poultry to China decreased from $1.8 million (U.S.) in 1983 to $975,000 (U.S.) in 1984 (see table #4). The remaining 23% was supplied by several countries which include the USA, United Kingdom, West Germany, France and Canada. Canada exported only $9,000 (U.S.) or 0.92% of the world total to China.

2) Total Exports of Seeds, Fruit and Spores to China:

This category includes all seeds, fruit and spores not elsewhere specified which are used for sowing. China increased its purchases of these commodities from $2.5 million (U.S.) in 1982 to $3.7 million (U.S.) in 1984 (see table #5). The main supplier in 1984 was Hong Kong with a market share of 37%. The U.S.A. and New Zealand had 24% and 19% market shares respectively in 1984. Canada exported $27,000 (U.S.) or 0.72% of the world total in 1984 (see table #5).

Canada exported $40,000 worth of rapeseed to China in 1986 (Jan.-Apr.). It is expected that the signing of the Plant Health protocol between Canada and China in 1986, will result in further sales of forage seeds, corn seeds and a possibly oilseeds.

Commodity	1985	1986 Jan.-Apr.
	($,000)	
Clover Seed - All types	26	-
Alfalfa	8	-
Grass Seed - All types	14	-
Seeds for sowing, NES	324	-
Rapeseed	-	40
Total Seed Exports	372	40

TABLE #1

WORLD EXPORTS OF LIVE ANIMALS TO CHINA

Values expressed in $000 U.S. (current)

	1982	1983	1984
Australia (value) (% world)	-	-	116 (3.84)
Belgium-Luxembourg	98 (4.75)	-	-
Canada	16 (0.78)	-	9 (0.30)
Denmark	-	-	1,069 (35.40)
France	1 (0.05)	40 (1.85)	45 (1.50)
West Germany	5 (0.24)	318 (14.68)	426 (14.11)
Hong Kong	1,012 (49.05)	1,438 (66.36)	784 (25.95)
Italy	-	-	-
Japan	95 (4.6)	60 (2.77)	16 (0.53)
Netherlands	-	-	301 (9.97)
New Zealand	-	-	-
Norway	-	-	-
U.K.	447 (21.67)	96 (4.43)	93 (3.08)
U.S.A.	311 (15.08)	111 (5.12)	97 (3.21)
TOTALS	1,985	2,063	2,956
(World) Total Exports to China	2,063	2,167	3,020
% World (Total/ Total Exports to China)	(96.22)	(95.20)	(97.88)

Prepared by Doug Bruce, July 21, 1986

TABLE #2

WORLD EXPORTS OF BOVINE SPECIES (PUREBRED) TO CHINA

Values expressed in $000 U.S. (current)

	1982	1983	1984
Australia (value)	-	-	52
(% world)			(2.89)
Belgium-Luxembourg	-	-	-
Canada	-	-	-
Denmark	-	-	1,069
			(59,49)
France	-	-	
West Germany	-	244	377
		(100.0)	(20.98)
Hong Kong	-	-	-
Italy	-	-	-
Japan	-	-	-
Netherlands	-	-	299
			(16.64)
New Zealand	-	-	-
Norway	-	-	-
U.K.	-	-	-
U.S.A.	-	-	-
TOTALS	-	244	1,797
(World) Total Exports to China	-	244	1,797
% World (Total/ Total Exports to China)	-	(100.0)	(100.0)

Prepared by Doug Bruce, July 21, 1986

TABLE #3

WORLD EXPORTS OF SWINE (LIVE) TO CHINA

Values expressed in $000 U.S. (current)

	1982	1983	1984
Australia (value)	-	-	-
(% world)			
Belgium-Luxembourg	98	-	-
	(22.27)		
Canada	-	-	-
Denmark	-	-	-
France	-	-	13
			(25.49)
West Germany	-	-	-
Hong Kong	117	-	38
	(26.59)		(74.51)
Italy	-	-	-
Japan	23	-	-
	(5.23)		
Netherlands	-	-	-
New Zealand	-	-	-
U.K.	-	-	-
U.S.A.	202	-	-
	(45.91)		
TOTALS	440	-	51
(World) Total Exports to China	440	-	51
% World (Total/ Total Exports to China)	(100.0)	-	(100.0)

Prepared by Doug Bruce, July 21, 1986

TABLE #4

WORLD EXPORTS OF POULTRY (LIVE) TO CHINA

	Values expressed in $000 U.S. (current)		
	1982	1983	1984
Australia (value)	-	-	-
(% world)			
Belgium-Luxembourg	-	-	-
Canada	16 (1.24)	-	9 (0.92)
Denmark	-	-	-
France	1 (0.08)	40 (2.21)	32 (3.28)
West Germany	-	74 (4.08)	49 (5.03)
Hong Kong	895 (69.22)	1,438 (79.36)	746 (76.51)
Italy	-	-	-
Japan	72 (5.57)	39 (2.15)	16 (1.64)
Netherlands	-	-	1 (0.10)
New Zealand	-	-	-
U.K.	200 (15.47)	96 (5.30)	51 (5.23)
U.S.A.	109 (8.43)	111 (6.13)	71 (7.28)
TOTALS	1,293	1,798	975
(World) Total Exports to China	1,293	1,812	975
% World (Total/ Total Exports to China)	(100.0)	(99:12)	(100.0)

Prepared by Doug Bruce, July 21, 1986

TABLE #5

WORLD EXPORTS OF SEEDS, FRUIT AND SPORES TO CHINA

Values expressed in $000 U.S. (current)

	1982	1983	1984
Australia (value)	47	187	132
(% world)	(1.91)	(6.95)	(3.53)
Belgium-Luxembourg	-	-	-
Canada	1	49	27
	(0.04)	(1.82)	(0.72)
Denmark	-	-	262
			(7.0)
France	-	-	1
			(0.03)
West Germany	4	38	78
	(0.16)	(1.41)	(2.09)
Hong Kong	1,390	1,207	1,393
	(56.55)	(44.89)	(37.23)
Italy	-	1	-
		(0.04)	
Japan	179	176	243
	(7.28)	(6.55)	(6.49)
Netherlands	26	20	2
	(1.06)	(0.74)	(0.05)
New Zealand	54	169	712
	(2.2)	(6.29)	(19.03)
U.K.	16	-	-
	(0.65)		
U.S.A.	718	786	892
	(29.21)	(29.23)	(23.84)
TOTALS	2,435	2,633	3,742
(World) Total Exports to China	2,458	2,689	3,742
% World (Total/ Total Exports to China)	(99.06)	(97.92)	(100.0)

Prepared by Doug Bruce, July 21, 1986

TABLE #6

MAJOR EXPORTERS OF SEEDS, FRUITS AND SPORES
(S.I.T.C. 2925) TO CHINA

		% World	Value in $000 U.S.
1982:	Hong Kong	56.55	1,390
	USA	29.21	718
	TOTAL	85.76	2,108
1983:	Hong Kong	44.89	1,207
	USA	29.23	786
	TOTAL	74.12	1,993
1984:	Hong Kong	37.23	1,393
	USA	23.84	892
	New Zealand	19.03	712
	TOTAL	80.10	2,997

Prepared by Doug Bruce, July 21, 1986

TABLE #7

MAJOR EXPORTERS OF LIVE ANIMALS

(S.I.T.C. 001) TO CHINA

		% World	Value in $000 U.S.
1982:	Hong Kong	49.05	1,012
	UK	21.67	447
	USA	15.08	311
	TOTAL	85.80	1,770
1983:	Hong Kong	66.36	1,438
	West Germany	14.68	318
	TOTAL	81.04	1,756
1984:	Denmark	35.40	1,069
	Hong Kong	25.96	784
	West Germany	14.11	426
	Netherlands	9.97	301
	TOTAL	85.44	2,580

Prepared by Doug Bruce, July 21, 1986

TABLE #8

MAJOR EXPORTERS OF POULTRY (LIVE)

(S.I.T.C. 0014) TO CHINA

		% World	Value in $000 U.S.
1982:	Hong Kong	69.22	895
	UK	15.47	200
	TOTAL	84.69	1,095
1983:	Hong Kong	79.36	1,438
1984:	Hong Kong	76.51	746

Prepared by Doug Bruce, July 21, 1986

Canada China Trade

In 1985, total Canadian exports to China totalled $1.3 billion of which 37.6% ($473.5 million) was agricultural products (See Table 1). Grain exports accounted for 97.1% of total agricultural exports to China. Non-Grain exports included raw hides and skins ($7.3 million) and dairy produce, eggs and honey ($4.59 million) (See Table 2). Bovine dairy semen exports increased to $897,000 in 1985 from $44,000 in 1984 (Source: Statistics Canada, Exports by Commodities).

TABLE #1

CANADIAN AGRICULTURAL EXPORTS TO CHINA, 1983-86

	1983	1984	1985	1986 (Jan-Mar)
		($'000)		
TOTAL EXPORTS	1,606,688	1,236,477	1,259,310	240,479
Total Agriculture Exports	940,626	641,472	473,529	116,734
% Total Exports	(58.54)	(51.88)	(37.60)	(48.54)
Total Grain Exports*	938,147	639,211	459,613	115,188
% Total Agricultural Exports	(99.74)	(99.65)	(97.06)	(98.68)
% Total Exports	(58.39)	(51.70)	(36.50)	(47.90)
Total Non-Grain Agricultural Exports	2,479	2,262	13.916	1,546
% Total Agricultural Exports	(0.26)	(0.35)	(2.94)	(1.32)
% Total Exports	(0.15)	(0.18)	(1.11)	(0.64)

*Includes wheat, barley, hard spring wheat flour, other cereals (milled), cereal preparation

Prepared by Doug Bruce, July 21, 1986

TABLE #2

CANADIAN AGRICULTURAL EXPORTS TO CHINA, 1983-86

	1983	1984	1985	1986 (Jan-Mar)
			($'000)	
TOTAL EXPORTS	1,606,688	1,236,477	1,259,310	240,479
TOTAL GRAIN EXPORTS*	938,147	639,211	459,613	115,188
NON-GRAIN AGRICULTURAL EXPORTS:				
Live Animals	35	11	298	511
Meat, fresh, chilled or frozen	139	105	49	
Other fishery foods & feeds	92			
Dairy produce, eggs & honey	11	791	4,592	
Fruits & fruit preparations	5	1		
Vegetables & Vegetable prepars.	5	16	53	33
Other foods & Materials for food			28	3
Other feeds of vegetable origin		7		
Other fodder & feeds	130	160	20	
Whisky	33	12	19	
Other beverages			3	
Tobacco		1		
Raw hides & skins	1,866	1,025	7,296	586
Fur skins undressed	70		84	
Other crude animal products		45	897	
Seeds for sowing	61	36	397	
Rapeseed				40
Other oil seeds, oil nuts & oil kernel		11		
Other crude vegetable products	32	40	180	365
TOTAL NON-GRAIN AGRICULTURAL EXPORTS	2,479	2,261	13,916	1,546
TOTAL AGRICULTURAL EXPORTS	940,626	641,472	473,529	116,734
% TOTAL EXPORTS	(58.54)	(51.88)	(37.60)	(48.54)

*Includes wheat, barley, hard spring wheat flour, other cereals (milled), cereal preparations

Prepared by D. Bruce, July 30, 1986

CANADIAN EXPORTS TO CHINA

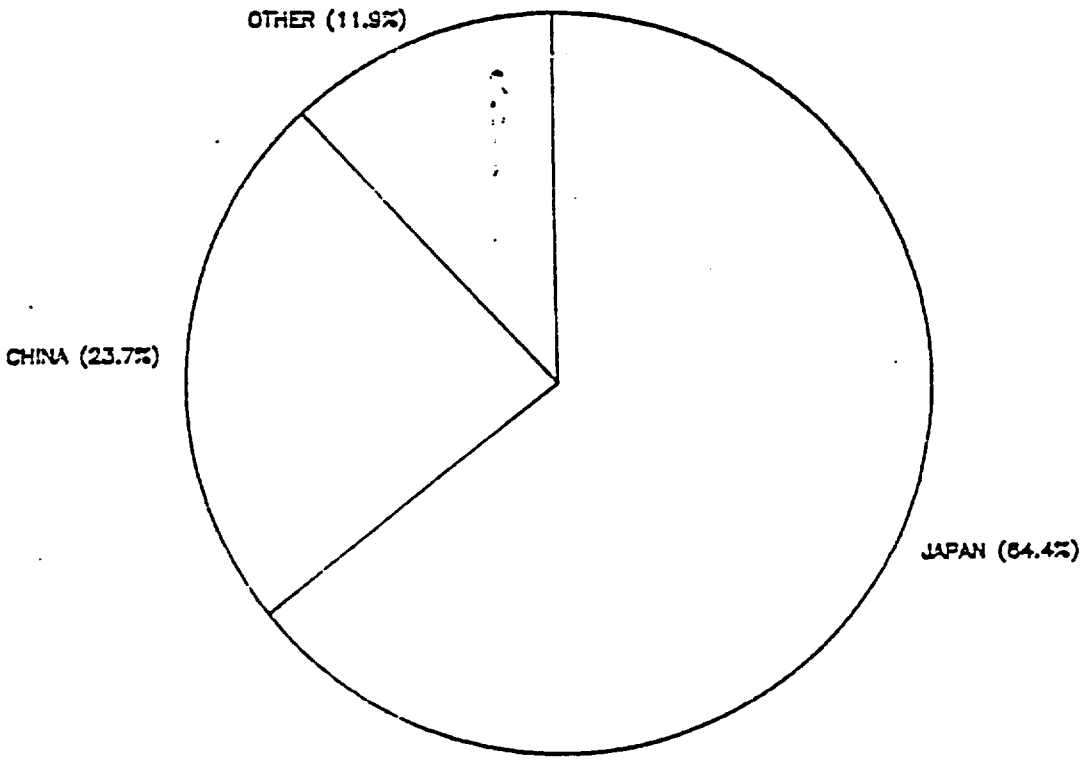
$'000

	1983	1984	1985	% Change 1985:1984
TOTAL	1,606,688	1,236,477	1,259,310	+ 1.9
AGRICULTURAL	940,626	641,472	473,529	-26.2
% of Total	58.5	51.9	37.6	-14.3
WHEAT	916,937	602,245	445,633	-26.0
% of Total	97.5	93.9	94.1	+ 0.2
OTHER AGRICULTURAL(1)	23,689	39,227	27,896	

(1) Includes: Flour, Barley, Rapeseed Oil, Cattle Hides, SMP, Tallow

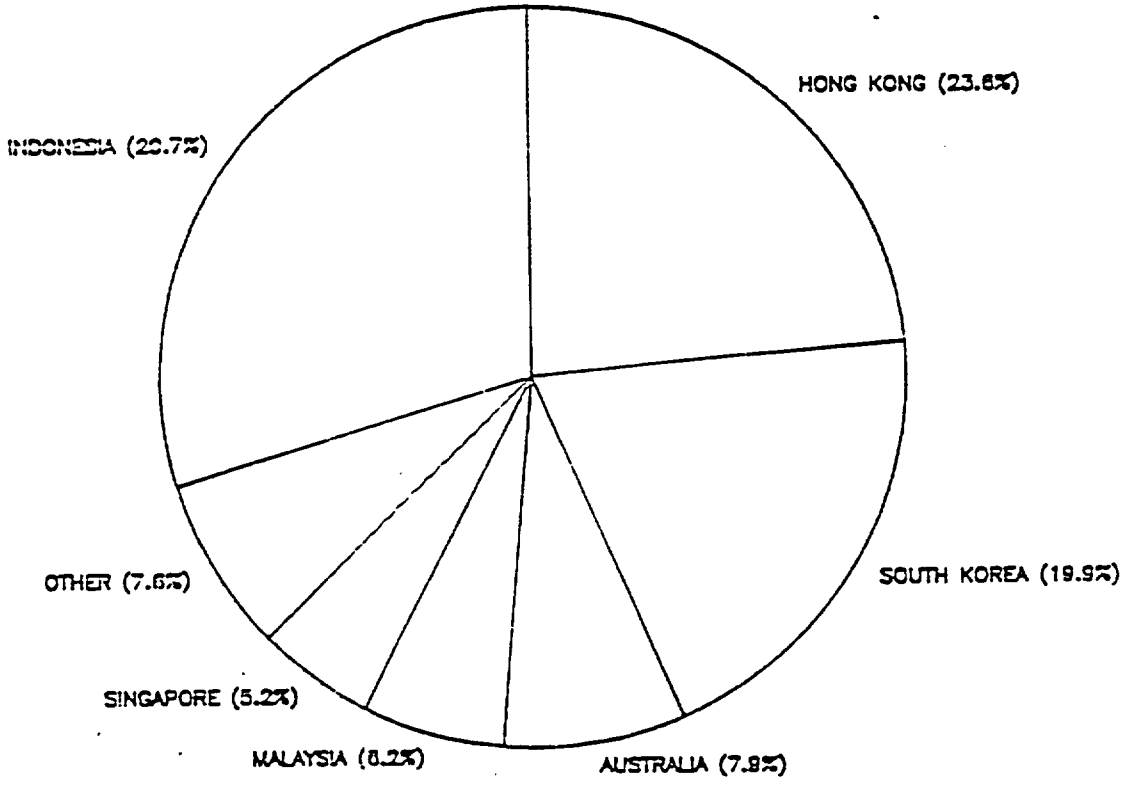
CANADA'S 1985 AGRICULTURAL EXPORTS

TO PACIFIC RIM



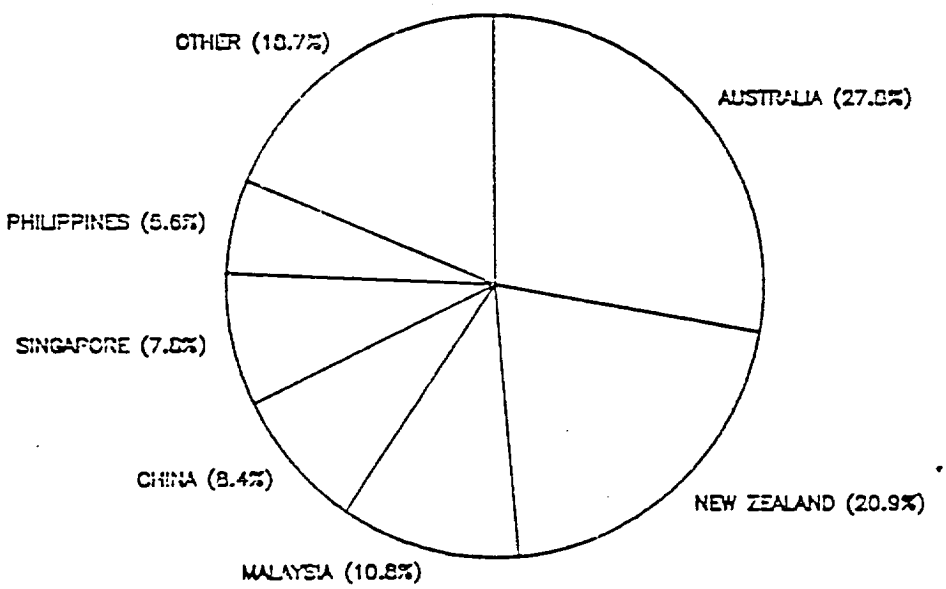
CANADA'S 1985 AGRICULTURAL EXPORTS

TO PACIFIC RIM, EXCLUDING CHINA & JAPAN



CANADA'S AGRICULTURAL IMPORTS

FROM PACIFIC RIM – 1985



EXPORT DEVELOPMENT CORPORATION (EDC)

EDC FINANCING AND INSURANCE SUPPORT FOR AGRICULTURAL EXPORTS TO CHINA

- The principal facility through which EDC finances Canadian exports to China is the General Financing Protocol (GFP) signed with the Bank of China (BOC) on October 1, 1984. The GFP is a $2.0 billion credit facility whereby EDC lends funds to the BOC for the procurement of Canadian capital goods and services by Chinese buyers. Funds are available through this facility to finance up to 85% of the contract price of the export in U.S. or Canadian Dollars or other currencies acceptable to the BOC and EDC. The rates and terms offered by EDC to the BOC conform to OECD Consensus guidelines. The GFP is set to expire on October 1, 1988.

- EDC financing is available under the GFP to support sales to China of acceptable Canadian capital goods and related services. Included in the definition of "capital goods" are such agricultural products as breeding stock, all types of farm equipment and services for agricultural development projects. The repayment period for such items as breeding stock is normally up to three years. Consumable agricultural products and commodities are not eligible for EDC financing support.

- In addition to the GFP, EDC has lines of credit with banks in the Asia and Pacific region that are available to Chinese borrowers. These banks include the Hong Kong and Shanghai Banking Corporation in Hong Kong and the Bank of Montreal Asia Ltd., Royal Bank of Canada (Asia) Ltd., Canadian Imperial

..../2

Bank of Commerce (Asia) Ltd. and Toronto Dominion (South East Asia) Ltd., all located in Singapore. These $10.0 million lines of credit are intended to support small and medium-size transactions.

- When the Government of the People's Republic of China considers that the nature of a project requires concessional financing terms, the Ministry of Foreign Economic Relations and Trade may request such financing under the GFP. These transactions will be considered on a case-by-case basis by EDC and the Canadian government. The $350 million to be made on concessional terms will form part of, and, where appropriate, will be blended with the GFP currently available on Consensus terms.

- With regard to export credit insurance cover for the export of agricultural commodities including livestock (with the exception of wheat), EDC has two bulk agricultural credits insurance policies to assist Canadian exporters. The Short-Term Credits Insurance Policy will enable an exporter to offer up to 360-day payment terms secured by an irrevocable letter of credit issued by a foreign bank acceptable to EDC. The exporter is afforded 100% cover for non-payment due to political risks of war, insurrection, import or export permit cancellations, or foreign exchange and transfer delays. For commercial risks including insolvency, default or repudiation of goods, cover is extended to 95% of the gross invoice value.

- The Medium-Term Bulk Agriculture Guarantee Program has been designed to cover extended financing terms up to three years in cases where there is clear evidence of officially supported competition for the commodity into the subject market. Cover is extended to the financing bank in the form of a 100%

guarantee of payment under a refinanced letter of credit or promissory notes issued by a foreign bank acceptable to EDC. Preshipment risk coverage can be arranged on a case-by-case basis.

- In addition, EDC has a number of other short and medium-term insurance and guarantee programs available to cover agricultural related capital and non-capital goods. The same risks are covered, but the percentage of cover for insured receivables is only 90% for both political and commercial risks.

Minister for International Trade | Ministre du Commerce extérieur

COMMUNIQUÉ

No. 202

EMBARGOED UNTIL 15:30 HOURS

November 21, 1986.

FINANCING FACILITY FOR CHINA

The Minister for International Trade, The Honourable Pat Carney, announced today that Canada has signed a Memorandum of Understanding and an Agreement with the People's Republic of China through which the Canadian government can make available concessional financing to the People's Republic of China for projects undertaken by Canadian firms using Canadian goods and services.

"Canada is keenly interested in fostering its already good trade relationship with China and I am confident that this new facility will contribute to its enhancement", Miss Carney said. "Using this new facility, which we have established in response to similar funding provided by our competitors, Canadian companies should be in a position to boost their exports to this important and growing market and to sell to a broader spectrum of Chinese organizations".

Mr. Earl Drake, Assistant Deputy Minister, Asia and Pacific Branch, Department of External Affairs signed the Memorandum of Understanding on behalf of Canada with Mr. WANG WENDONG, Assistant Minister, Chinese Ministry of Foreign Economic Relations and Trade (MOFERT). Mr. J. McDermid, Parliamentary Secretary to Miss Carney, represented the Minister at the signing ceremony here in Ottawa.

The concessional financing facility will be administered by the Export Development Corporation for the Canadian Government and an implementing agreement was also signed with EDC which outlines a framework for the use of the facility.

- 30 -

Canada

EDC's concessional line of credit with China: how it works

Interest in the world's newest export frontier — The People's Republic of China — has been high among Canadian exporters for years. But spend any time exploring opportunities in that market, and one simple fact becomes clear: many Chinese transactions require concessional financing in order to proceed.

It comes as no surprise, then, that interest in the $350 million concessional financing facility announced last year by Prime Minister Mulroney has been running at a fever pitch.

Manager Tom Macdonald and his colleagues in the Pacific and North Asia Department of EDC's Export Financing Group have prepared a list of answers to some of the most frequently asked questions about the new facility. They deal with such topics as the misconception about a "magic" exporter list for Chinese projects, and the supposed edge being on such a list gives exporters. The reasons why Canadian exporters don't have to bring concessional financing to their buyers at the preliminary stages of negotiation are also discussed.

In short, the answers explain how this one-of-a-kind EDC facility, developed expressly for the Chinese market, can be used by Canadian firms to increase their trade with China.

Why was the line of credit established?

Quite simply, to counter the financing practices of other countries. In 1986, EDC received over 50 notifications from various major exporting countries that concessional support was used in the Chinese market. In establishing the facility, the Government of Canada has made the point that we will face the competition head-on, that we will not allow our exporters to be disadvantaged in their pursuit of Chinese export business.

How did Canada respond in the case of the Chinese market?

A $350 million slice of EDC's existing $2 billion General Financing Protocol with the Bank of China has been allocated for concessional financing. Blending the concessional portion with the Consensus-based funds in the Protocol has effectively created a large and competitive facility.

Is the line competitive?

Yes, it is. To protect its competitive position, EDC does not disclose its interest rates or terms on individual transactions, and we will not disclose those negotiated with Chinese officials. But the fact that the Ministry of Foreign Economic Relations and Trade (MOFERT) signed the concessional agreement with Canada last month is a signal that the Government of China considers the line fully competitive.

How can Canadian exporters use the line?

First, at the earliest stage of a transaction, exporters should contact EDC. We will review the technical and financial capabilities of your firm and provide a letter that shows your buyer that you are a qualified exporter and are eligible for support under the concessional line of credit. EDC can also give you a preliminary indication of Consensus-based rates and the terms of the line of credit.

"Assure your buyer that the financing is competitive, and that he can contact MOFERT or the Bank of China for details."

We should emphasize that financing under the line of credit is a two-sided procedure. The Chinese buyer deals with MOFERT and the Bank of China, and you the exporter deal with EDC. This means that neither party needs to worry about the financing aspects of the transaction: they will be taken care of by the two agencies. You can assure your buyer that the financing worked out between China and Canada is competitive and that he can contact MOFERT or the Bank of China for details. In short, the agreement between Canada and China means that the two of you — the Canadian exporter and the Chinese buyer — can concentrate on the commercial aspects of the transaction.

How do the Canadian and Chinese systems work in relation to concessional financing?

Both systems are centralized, and in both countries, a key criterion is whether the financing is in the national interest of the country. In China, concessional financing falls under MOFERT, which decides whether a purchase warrants special rates and terms. In Canada, concessional financing is made available through the Government Account (Section 31) of the Export Development Act. This means that when a transaction is under consideration, an approach is made to the Minister for International Trade, who decides whether or not to approve the financing. If MOFERT approves the project for concessional financing, it then formally requests such financing from EDC.

China has various development priorities, but they are not cast in concrete. Much as the Canadian exporter applies for special financing support from EDC, the Chinese buyer applies to MOFERT. Although there is a certain amount of flexibility, it seems apparent that a decision by MOFERT to assign concessional financing to a deal will be governed by the commercial/economic aspects of the request, and not whether EDC or the Canadian government is prepared to offer concessional financing to it.

Are there restrictions on what types of goods and services can be financed under the line?

No. Goods and services that meet EDC's normal criteria will be eligible. That is to say, capital goods and services that justify financing on credit terms of more than one year. In addition, the transaction must meet any criteria established by the Government of Canada, such as cost-benefit or national interest considerations.

Will certain sectors be given preference by EDC?

No, the line of credit is not sector-specific. EDC is exporter-driven, so we will not get involved in the process of selecting winners; they will emerge on their own merits in the Chinese marketplace. However, although not at the exclusion of other potential transactions, China's new five-year plan places emphasis on the development of hydro and thermal power, telecommunications, transportation, forestry and agriculture, all sectors in which Canada

has experience and expertise.

Are there restrictions on the size of projects?

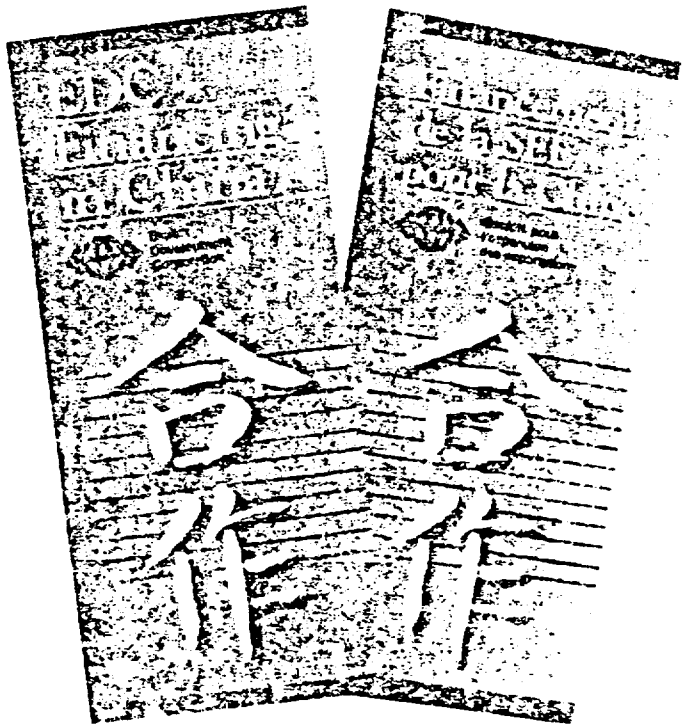
Generally speaking, no. However we would not like to see the whole line exhausted on one or two large projects, and nor, one might expect, would the Chinese. The Government of Canada would prefer to see the funds spread around as much as possible. The line of credit is available to Canadian exporters of all sizes, and for a full range of products and contract amounts.

Is there any restriction on the number of times an exporter can receive support under the line?

No. The line will be accessed on a first-come-first-served basis; that is to say, support will be given to each eligible exporter who comes to EDC with a full proposal, until the line is exhausted. There is no limitation on the number of times an exporter can be financed under the facility.

Is there a list of projects, as there is in some other countries?

No, not strictly speaking. The Chinese have made formal requests for several proposed transactions for which they want concessional financing, and stated the names of the exporters they want to use. EDC cannot identify these transactions because we must maintain commercial confidentiality. The fact that EDC might not be approached about your transaction does not mean that it will not proceed. It may well go forward at the Consensus interest rates for China, and at repayment terms of up to 10 years. After all, if the Chinese think a project will pay for itself with Consensus rate financing, they are not likely to use up limited concessional money to finance it.



Write the Pacific and North Asia Department for a copy of our new "EDC Financing in China" brochure. It describes our concessional and commercial export financing services. *(See page 12 for the address.)*

"Foremost in the mind of the buyer is the competitiveness of your product. Financing may be a key, but it won't get you the deal."

From the inquiries EDC has received to date, there appear to be certain misconceptions about the importance of being on a project list, and on bringing concessional financing to your buyer. Some exporters feel that being named on a list means that China will restrict negotiations to your company, while others view it as a guaranteed sale. In point of fact, neither is the case.

First and foremost in the mind of the buyer is the competitiveness of your product. Financing may be a key in closing a deal, but in China it will not get you the deal. Competition is so intense that the buyer is convinced he will get a "best" internationally competitive price regardless of the financing terms. He is also convinced that concessional financing will be granted if MOFERT approves the project. The point is, you may not have any competitive advantage by being on a concessional financing list or, if you could, by bringing such financing to the negotiating table; only your product or service can give you that sort of edge.

Can EDC help the exporter and the buyer convince MOFERT to approve a project?

Probably not. The Chinese approval system is disciplined and has its own set of criteria, and EDC is not likely to change that system.

In China, like Canada, buyers drive a hard bargain and Canadian exporters can expect their commercial negotiating skills to be tested. You may, for example, receive some pressures to short-cut the system, such as by being asked to bring concessional financing to the buyer at the early stages of discussion. Our advice is straightforward: have confidence in the process as it has been negotiated and agreed upon by China and Canada. It is designed to be responsive and efficient for all parties involved. EDC might not be able to exert any particular influence, but through our open line of communication with MOFERT, we can help you monitor the progress of your project.

EDC is committed to seeing that Canadian exporters remain competitive in the face of foreign concessional financing practices. For further information on the $350 million concessional line of credit with China, please contact the Pacific and North Asia Department at EDC's Head Office.

The Grain Challenge

Improvements in handling and processing are needed to cope with China's growing grain harvests

Disastrous weather in many parts of China and a decline in the acreage sown to grain caused a precipitous drop in grain production in 1985. The 25 million to 30 million tonne decrease, representing one of the largest declines in grain output within the last 25 years, triggered memories of severe grain shortages in the past.

But in contrast to years like 1959 and 1960, when grain production declined by 28 and 25 million tonnes respectively, the subnormal harvest of 1985 has not precipitated a national crisis. Rather, thanks to dramatic increases in grain production for several successive years, China's stocks are generally adequate and some regions have sizable excesses. Although the government is responding to 1985's decline by reducing prices for fertilizer and giving loan priority to farmers who grow more grain, the drop does not signal a major failure of agricultural reforms.

In fact, the overall grain production picture in recent years has exceeded even the most sanguine expectations. Although total acreage sown to grain has declined by 12 million hectares (1 hectare [ha]=2.47 acres) or 10 percent since 1978, unusually favorable weather conditions combined to yield a net increase in grain output of 100 million tonnes between 1978 and 1984. Much of this increase stems from realization of the potential of long-term development projects in such areas as water control and land improvement. But it took the new agricultural policies introduced in 1978 to overcome the inhibiting effects of inefficient management and overly centralized planning in agriculture.

Most analysts agree that China's large grain harvests are here to stay—even the "poor" 1985 output was 25 percent higher than in 1978. In order to take full advantage of this, vast changes are needed in all aspects of grain handling and processing. The Chinese acknowledge that they have a long way to go, and lack the experience and technology to accomplish all the necessary transitions themselves. Thus their plans include utilizing a broad range of foreign technology, equipment, and investment to modernize the grain sector and ensure that, even if the country experiences poor harvests again, there will be an adequate margin of safety against disaster.

The transition to bulk handling

More grain is entering China's marketing system due to increased production and reform of the State purchasing system. Traditionally, most grain has been consumed locally. The remainder (between 15 and 20 percent of production) entered State marketing channels, where virtually all of it was transferred to urban areas or to grain deficit regions.

But this system became cumbersome as grain production began its rapid rise. Between 1978 and 1984 the quantity of grain procured and purchased by the State increased from about 62 million tonnes (20 percent of production) to 141 million tonnes (35 percent of production). As a fundamental part of agricultural reforms, the State monopoly over the purchase and distribution of grain was terminated in 1985, when State procurement was limited to the purchase of 75 million tonnes of rice, wheat, and corn. All excess grain is now sold on the newly emerging free market at prices theoretically determined by supply and demand. The State will buy additional quantities only if the free market price falls below a set level, assuring grain farmers a minimum income.

In the future, the State will continue to reduce its contracted purchases, forcing China's marketing system to accommodate an increasingly larger flow of grain. In essence, China is moving away from the traditional concept of regional self-sufficiency to interprovincial or interregional dependence and trade. Grain deficit provinces are encouraged to bypass State channels and negotiate directly with grain surplus provinces. This trend to commercial production and marketing will require investment in all facets of grain distribution in China, including handling, storage, and transportation.

• **Handling** Threshing and drying equipment are needed on individual farms to reduce post-harvest losses, condition grain by removing foreign materials and damaged kernels, and shorten the time it takes grain to enter marketing channels. The many types of simple threshing equipment currently in use vary in efficiency. The country's threshing and winnowing equipment were designed for relatively large-scale collective farming, and now need to be replaced with more efficient and smaller threshing, shelling, and winnowing equipment compatible with individual household farming operations. Larger equipment may eventually come back

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into demand if China's plan to reduce the number of farmers engaged in crop production by two-thirds by the end of this century is successful, but individual household purchases currently dominate the market.

After threshing, grain is usually air and sun dried—a process that may require as long as six to eight months. Losses, while normally relatively low, can be catastrophic should heavy rainfall occur during harvest or threshing. The introduction of small, energy-efficient driers will reduce losses and shorten the time it takes grain to reach the market.

Most of China's storing, elevating, and transporting facilities were designed for relatively small quantities of bagged grain. While more efficient methods to improve and gradually supplant the handling of grain in bags are being studied, bulk handling is being introduced to expedite movement of large quantities of grain. The transition to bulk handling will require specialized trucks and railcars to transport the grain, improved elevating equipment to move it into or out of storage and onto trucks or rail cars, and new unloading facilities.

Mechanical scales will also be installed to weigh grain at various points. At present weighing is generally limited to small manual scales located at rural grain collection and storage facilities.

Finally, the combination of sun drying and manual handling produce a problem of high stone, bag, and string content in Chinese grain. Equipment is needed to remove these foreign materials and dust so cleaner grain can meet the needs of consumers, more sophisticated processing, and trade.

• **Storage** Most current storage facilities are relatively simple, and inadequate for China's present needs. Storage varies by region; the relatively cooler northeast and parts of north China use small round bins, while flat storage is more popular in central and south China. The Chinese are seeking modern storage technology and facilities, and are particularly interested in steel bins. Better storage will reduce rodent and insect losses, and prolong storage time by controlling temperature, humidity, and oxygen.

• **Transportation** Inland transportation is the single largest bottleneck to getting grain to consumers. Most grain is currently bagged and moved by rail, but the railroads are also moving a small but increasing volume of grain in bulk. The use of hopper cars able to load grain through the side or bottom of the car is increasing. More hopper cars will be put into service, some of which may be imported. Facilities to unload them must be installed, ideally with enclosed belts or other means of conveyance to move grain directly into storage, port loading facilities, or processing plants.

Growing grain trade requires new port facilities

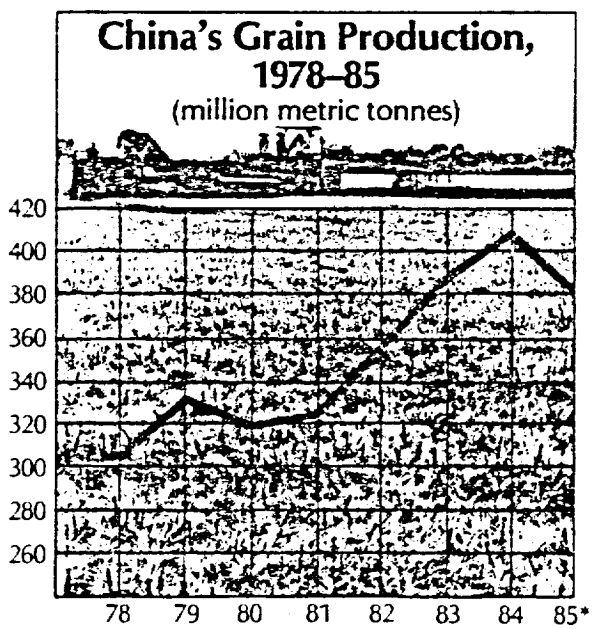
China has no specialized port facilities to handle grain, aside from grain elevators at Shanghai and Huangpu (near Guangzhou), which are used to discharge imported wheat, and a small silo in Dalian to load soybeans for export. General cargo berths were, and continue to be, used for loading bagged rice and small amounts of corn and sorghum for export and unloading wheat imports.

This situation was adequate until 1984 because China's major grain exports were limited to rice and, to a lesser extent, soybeans. Sporadic dislocations caused by temporary excesses of grain to be loaded or unloaded were the main problem.

But China's emergence as a sizable exporter of corn and sorghum (corn exports skyrocketed from less than 100,000 tonnes in 1983 to some 5 million tonnes in 1985) has forced authorities to recognize the need for specialized grain-handling facilities. The dramatic increase in China's foreign trade compounds the problem by creating intense port congestion and a severe shortage of general cargo berths.

Plans to install handling facilities to load corn for export (and also for delivery to newly developing markets in south China) are not far advanced, since exporting on a large scale only began in 1984. Northeastern China is expected to be the only region with large annual excesses of corn, so construction plans for corn-loading facilities have focused on the northeastern ports of Yingkou and Dalian, while a third site is being considered at Dandong. The grain berth at Yingkou should be completed by September 1986, more than tripling capacity to about 1 million tonnes a year. Facilities to further increase Yingkou's capacity to about 2 million tonnes in 1988 and to 2.6 million tonnes by 1990 are under consideration.

China plans to build its largest corn-loading facility at Dalian, and is considering an unusual arrangement to do so with Japanese firms. The Chinese have accepted a tender, but postponed a final decision on a Japanese bid to replace Dalian's coal-



SOURCE: State Statistical Bureau and various Chinese sources

*1985 figures based on preliminary estimates

Grain Production 1978–1985*
(Million tonnes)

	Rice	Wheat	Corn	Soybeans	Tubers**	Other***	TOTAL
1978	136.93	53.84	55.94	7.57	31.74	18.74	304.76
1979	143.75	62.73	60.03	7.46	28.46	29.69	332.12
1980	139.91	55.21	62.60	7.94	28.73	26.17	320.56
1981	143.96	59.64	59.21	9.32	25.97	26.92	325.02
1982	161.60	68.47	60.56	9.03	27.05	27.59	354.50
1983	168.87	81.39	68.21	9.76	29.25	29.80	387.28
1984	178.26	87.82	72.34	9.70	28.48	30.52	407.12
1985	167.00	86.00	64.00	9.70	24.00	29.30	380.00

* 1985 based on preliminary Chinese estimates
** In grain equivalent, 5 units of tubers = 1 unit of grain
*** Includes sorghum, millet, barley, oats, buckwheat, peas, beans, and other lentils

SOURCE: State Statistical Bureau, various Chinese sources

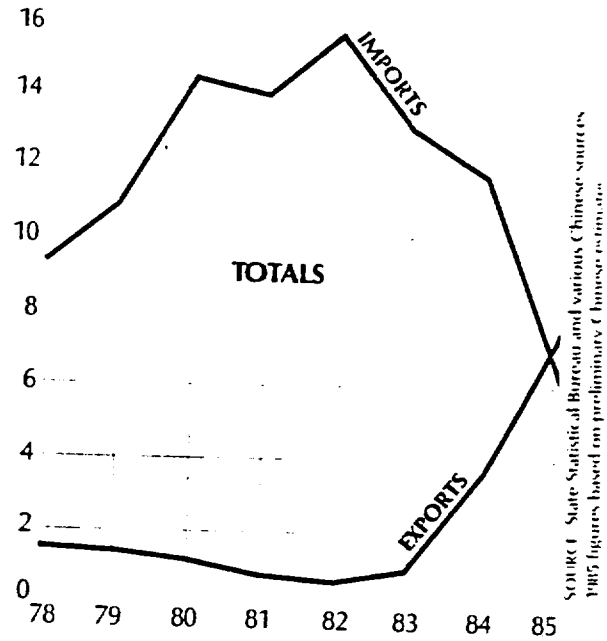
loading facility (now already being used for corn) with an 80,000 tonne corn export silo. A final decision is expected (at the earliest) in April 1986 on the project, which will have a maximum 2.8 million tonnes annual loading capacity. China would pay for the facility in kind: between 200,000 and 300,000 tonnes of corn (worth $25 million to $30 million) are being offered as compensation. As a general policy, the Chinese do not offer commodities for large compensation trade deals, indicating that this project must have approval from officials at the highest level.

Port improvements designed to facilitate the unloading of imported wheat are another high priority. Although good harvests enabled China to reduce wheat imports from a record 13.3 million tonnes in 1982 to an estimated 6 million tonnes in 1985, wheat usage is increasing rapidly due to changes in consumer preference. Thus most Western observers expect wheat imports to continue rising. Last year the Chinese purchased a pneumatic unloader from Simons Ltd., (UK), which will double Dalian port's capacity to unload wheat from 1.5 million tonnes to over 3 million tonnes a year. A similar facility was recently purchased for the port of Xingang in Tianjin. And Qinhuangdao's port will soon invite bids for construction of a grain wharf to unload up to 2 million tonnes of wheat annually.

Better processing needed as grain consumption diversifies

The shifting patterns of grain imports and exports reflect not just better harvests, but also changing consumer preference. With sizable quantities of grain in excess of basic food needs available for the first time, consumers may now exercise choice in the type and quality of grain they buy. In urban areas, consumers prefer high-quality rice and flour. In rural areas, rice and wheat are replacing low-quality grains such as sweet potatoes, corn, and other coarse grains, which historically have been the staple.

Most of China's surplus grain is of low quality and limited marketability. But China is seeking facilities to convert this low-quality grain into livestock and poultry feed, processed foods, and industrial materials. Provinces are taking much of the initiative to increase grain processing capacity, and are proving receptive to cooperative ventures as a means of acquiring foreign investment. Technology and equipment for flour mills, starch mills, feed mills, and food processing plants are the most common areas of interest. China also plans to improve its capability to process grain into fast foods, infant food, snacks, confectionary products, and beverages. Over 100 types of processed foods can be made from low-quality rice alone, which constitutes about 40 percent of China's rice production. Similarly, excess corn can be converted into flour, grits, and flakes.



SOURCE: State Statistical Bureau and various Chinese sources. 1985 figures based on preliminary Chinese estimates.

• **Flour milling** Consumption habits and preferences for wheat are changing in both urban and rural areas. The government is encouraging the introduction of wheat-based food in south and central China to improve and add variety to the traditional rice diet, while consumers in the north are eating more wheat products than ever. Consumption of traditional staples such as steamed bread, dumplings, and noodles is increasing, as well as the demand for relatively new foods such as bread, instant noodles, and sandwiches. Demand for high quality white flour is increasing, while Western-style restaurants, bakers, and noodle makers need specialty flour to produce new products and improve existing ones.

Projects to expand and improve milling capacity exist in virtually all urban areas in China's wheat belt. Most of the equipment being replaced in the cities is of 1930 vintage or older, and, if still useable, may eventually be relocated to rural areas. Southern China is moving to develop its own milling capacity by constructing new mills.

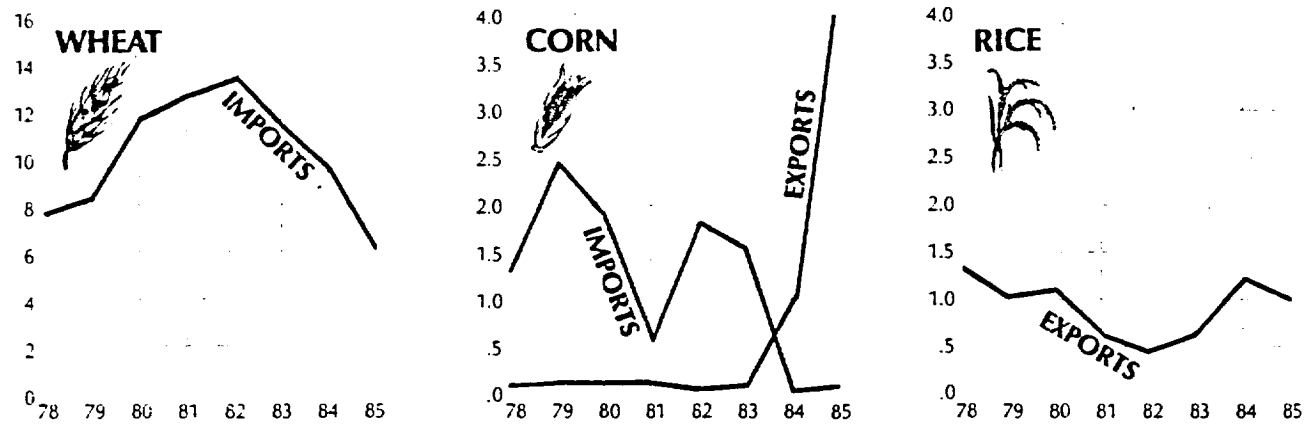
The extensive modernization of China's flour milling industry requires foreign technology and equipment. Since much of the wheat grown in or imported by China is red, the flour from these wheats is off-color, even if milled at a very low rate of extraction. Bleaching and enriching technology will be needed to provide the white flour now in demand, and improve its nutritive value.

In general, only two grades of general purpose flour have been produced in the past. Specialty flours are a relatively new concept and China lacks experience in the technique of blending various classes of wheat and flour. Most mills now in operation can handle soft wheat, but specialized equipment will have to be installed to handle the high-protein hard wheat and higher gluten wheats that comprise a large portion of what is available for milling. The milling of hard wheat requires rollers made from strong steel alloys. Reportedly, some of these alloys are not produced in China.

• **Corn milling** More corn is now available for milling as a result of larger harvests. The Chinese may not be aware of many of the 350–400 different uses for starch extracted from corn, but they are beginning to experiment with a broad range of industrial and food uses. Corn is milled in a few relatively small, obsolete mills that recover less than 80 percent of the useable components from corn. Even the country's leading corn producer, Jilin Province, has only 18 mills with a combined grind capacity of less than 100,000 tonnes of corn per year. The simple starches produced are primarily used for pharmaceuticals. Industrial alcohol and the glass and chemical industries are secondary endusers. Although China is short of high-grade vegetable oil, very little corn oil (a byproduct from the manufacture of starch) is used for food since few mills have the capability to de-gum it. Rather,

CHINA'S GRAIN IMPORTS AND EXPORTS

(million tonnes)



corn oil is most often used for such nonfood manufactures as antibiotics, soap, and lacquers.

Virtually all modern corn-milling technology and equipment will have to be imported. China lacks the technology to manufacture improved starches and expand the range of starch uses. They have purchased equipment such as centrifuges to renovate and upgrade existing mills and are considering the acquisition of new, modern mills. Technology to produce modified starch (primarily for pharmaceutical use), starch for textile and paper manufacture, high-fructose corn syrup (HFCS), and alcohol is also needed.

The nation's first wet mill incorporating foreign technology and equipment recently began operation. The mill, located in Anyang, Henan, has an annual grind of 25,000 tonnes of corn for processing into starch and other byproducts. Its primary products are starch for pharmaceutical and industrial use, corn oil, lysine, and single-cell protein. The byproducts—corn gluten feed and corn germ meal—will be used for high-protein livestock and poultry feed. The nation's first ethanol distillery (a dry mill) was recently purchased from Speichim (France). The mill will be located at Tianjin and will have an annual grind of about 50,000 tonnes of corn. A number of corn producing provinces, including Heilongjiang, Jilin, Liaoning, and Shandong, are interested in or negotiating for mills.

Provinces producing minor amounts of corn also hope to alleviate their shortages of sugar and industrial starch by milling imported corn or corn from other parts of the country. Virtually all sugar used in east China must be imported, but this region is planning large-scale canning, brewery, soft drink, baking, and other food processing industries, all of which will require large quantities of sugar. Wet milling would provide a source of dextrose, HFCS, and industrial starch. East and central China are also exploring the feasiblity of building plants to convert sweet potato starch into sugar.

The feed industry adopts long-range plan

The formation of a mixed feed industry is especially important because it directly or indirectly helps absorb excess grain, especially corn; improve the woefully low feed conversion ratios that now prevail; convert oil meals and other ingredients into highly nutritious foods; absorb underutilized rural labor; improve consumer diets by increasing the supply of meat, poultry, eggs, and dairy products. Animal husbandry used to be mainly a household sideline activity using whatever feedstuffs happened to be available. The need to mix feed to improve nutritional value became apparent in the mid-1970s as planners looked for a method to upgrade animal husbandry and arrest the chronic shortage of meat, poultry, and eggs. The post-1979 encouragement of specialized households and the establishment of large livestock and poultry enterprises near urban areas intensified the demand for mixed feed to raise efficiency and speed livestock development.

In February 1983 the State Council adopted the "National Program for the Development of the Feed Industry 1984–2000," establishing the ambitious goal of increasing mixed and compound feed production of all types to 50 million tonnes by 1990 and between 100 million and 120 million tonnes by the end of this century. These goals seem particularly optimistic when one considers the limited progress made since 1978, and the constraints on the industry.

China began importing mixing equipment from Hungary in 1978 and later purchased equipment from other countries, including the United States, Japan, and Switzerland. The first plant to manufacture mixing equipment using domestic technology was built in Shanxi Province in 1978. But by 1983 the approximately 3,500 feed mills in operation had a combined mixing capacity of only 5 million tonnes. Production reportedly increased to 8 million tonnes and 12 million tonnes in 1983 and 1984, but even these numbers must be viewed with some skepticism; the Chinese count any feed consisting of two or more blended ingredients as mixed feed. The proportion of compound (specially formulated to be complete and nutritionally balanced) feed is small, comprising only about 10 percent of total feed production in 1984; much of this fell short of even minimum nutritional standards.

Under the long range plan, the State and provinces will invest about

Corn is milled in a few relatively small, obsolete mills that recover 80 percent of the useable components from corn. Even the country's leading corn producer, Jilin Province, has only 18 mills with a combined capacity of less than 100,000 tonnes of corn per year.

¥1.5 billion ($500 million) during the first phase of the program, 1986–1990. Feed mills built with these funds will be administered by the Ministry of Commerce (MOC) and produce complete feed according to MOC standards. In addition, the plan calls for townships and villages to set up simple mixing facilities financed by local investment and administered by the Ministry of Agriculture, Animal Husbandry, and Fisheries (MAAF).

Most State and provincial investment in feedmills is earmarked for one large methionine plant, four or five lysine plants, 20 to 40 concentrate and feed additive plants, and an unspecified number of medium and large mixing plants. These plants will produce mainly compound poultry and dairy feeds according to MOC specifications, for distribution to relatively large poultry and dairy enterprises situated near urban areas and, to a lesser extent, for specialized households. The feed additive and premix plants will also supply small mills in the system with products to be mixed with locally available ingredients. Small mills will mainly produce comparatively low-quality mixed feed for hogs.

The feed industry's needs include equipment to mix feed to exacting specifications, assistance in the use of pre-mixes and feed additives in formulating balanced diets, and instruction in the role of protein (especially an acceptable amino acid profile).

Providing for future security

China's grain production will probably continue on its upward trend, but the 1985 decline indicates that the rate of increase will likely be much lower, and more difficult to attain than during the past six years. The Seventh Five-Year Plan (1986–1990) sets a grain production target of 450 million tonnes by 1990, an increase only one-half as large as that registered from 1978–1984. The 1990 target is attainable, but will require increased investment and accelerated introduction of scientific farming techniques.

Furthermore, agricultural policies may have to be adjusted to dispel the growing reluctance of some to grow grain. Given the existing price structures, it is often more profitable to grow nongrain crops, farm part-time, or work in higher paying local industries. Some farmers hesitate to grow grain because markets are uncertain, selling grain is difficult, and grain storage is not always available.

Under these conditions, grain producers may lack incentives to increase grain production as rapidly as the government plans. But if China's multifaceted program to improve grain handling and processing succeeds in getting grain to market faster and turning grain into higher-value products, farmers may have the incentive they need to grow grain.

US ORGANIZATIONS ADVISE CHINA ON GRAIN

With offices in Beijing, the US Wheat Association (USWA), the US Feed Grains Council (USFGC), and the American Soybean Association (ASA) are all positioned to help in the modernization of China's grain and feed sectors. The US Department of Agriculture cooperates with these and other industry- and American farmer-sponsored organizations to promote American agricultural commodities overseas.

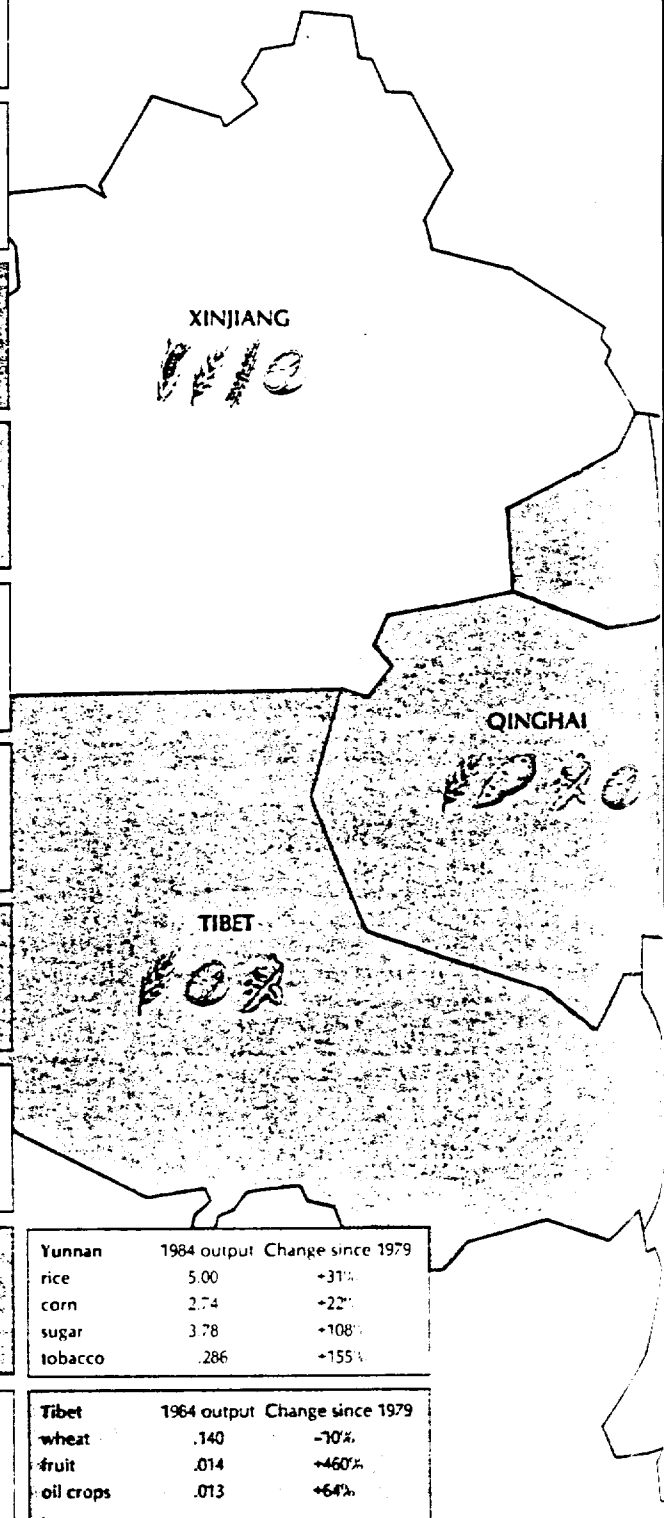
The USWA sponsors programs to improve flour quality and promote flour consumption. Its model flour mill and bakery in Beijing and instant noodle plant in Shanghai include demonstration and training facilities to expose the Chinese to modern production techniques, equipment, and technology. USWA also opened a milling and baking school in Guangzhou in 1985.

The USFGC and ASA organize feeding trials and demonstrations to illustrate the advantages of modern feeding practices for animal and poultry husbandry. They also conduct technical seminars and feeding trials. USFGC and ASA, like USWA, sponsor or assist in the exchange of technical delegations and host study groups in the United States. USFGC recently established a model mill in Nanjing to manufacture vitamin/mineral/protein premixes for nonruminant animal and poultry feed. Technicians from all over China are being trained at this facility, and the Chinese plan to use the mill as a prototype for future large-scale mill construction.

To expose the Chinese to corn milling technology and the use of starch, the USFGC, the USDA Foreign Agriculture Service, and the US Corn Refineries Association have supported a number of visiting delegations in the past 18 months. In addition, the US International Trade and Development Cooperation Agency is funding a feasibility study for a large corn mill in Shanghai. If constructed, the mill's annual capacity would include 60,000 tonnes of alcohol, 20,000 tonnes of HFCS, 30,000 tonnes of syrup, 3,000 tonnes of citric acid, and 5,000 tonnes of modified starch. —I.E

China's Major Crop Production by Province

1984 output in million metric tonnes



Anhui	1984 output	Change since 1979
rice	11.4	+28%
wheat	6.46	+65%
oil crops	.971	+118%
cotton	.234	+140%

Fujian	1984 output	Change since 1979
rice	7.31	+13%
tubers	.835	+2%
sugar	4.73	+52%
fruit	.241	+95%

Hebei	1984 output	Change since 1979
wheat	7.16	+13%
corn	6.40	+2%
fruit	1.34	+70%
cotton	1.05	+808%

Jiangxi	1984 output	Change since 1979
rice	11.9	+21%
tubers	[illegible]	[illegible]
sugar	.150	+90%
oil crops	.245	+77%

Shanxi	1984 output	Change since 1979
wheat	2.90	+58%
corn	2.35	-19%
fruit	.386	+41%
oil crops	.367	+380%

Shandong	1984 output	Change since 1979
wheat	11.3	+36%
corn	9.93	+41%
fruit	1.87	+6%
oil crops	1.82	+67%

Nei Mongol	1984 output	Change since 1979
corn	3.48	-12%
wheat	1.44	+33%
sugar	.141	+183%
oil crops	.598	+219%

Henan	1984 output	Change since 1979
wheat	16.5	+70%
corn	5.23	+9%
cotton	.869	+94%
oil crops	.525	+42%

Liaoning	1984 output	Change since 1979
corn	7.16	+14%
rice	3.31	+56%
fruit	.955	-7%
oil crops	.420	+144%

Hubei	1984 output	Change since 1979
rice	15.7	+24%
wheat	3.78	+33%
cotton	.606	+35%
oil crops	.554	+73%

Jilin	1984 output	Change since 1979
corn	11.0	+107%
rice	1.91	+87%
sugar	.680	+19%
oil crops	.598	+320%

Hunan	1984 output	Change since 1979
rice	24.2	+21%
tubers	.915	-28%
sugar	1.08	+63%
oil crops	.384	+34%

Heilongjiang	1984 output	Change since 1979
corn	6.42	+10%
wheat	3.82	+15%
sugar	4.23	+241%
oil crops	.259	+278%

Guangdong	1984 output	Change since 1979
rice	17.9	+16%
tubers	1.42	+2%
sugar	17.7	+115%
fruit	.792	+178%

Shanghai	1984 output	Change since 1979
rice	1.78	-2%
wheat	.140	-26%
oil crops	.116	-2%
cotton	.106	+19%

Guangxi	1984 output	Change since 1979
rice	10.6	+6%
corn	1.04	+5%
sugar	7.22	+89%
fruit	.332	+113%

Yunnan	1984 output	Change since 1979
rice	5.00	+31%
corn	2.74	+22%
sugar	3.78	+108%
tobacco	.286	+155%

Jiangsu	1984 output	Change since 1979
rice	17.5	+34%
wheat	9.04	+69%
oil crops	.710	+87%
cotton	.665	+25%

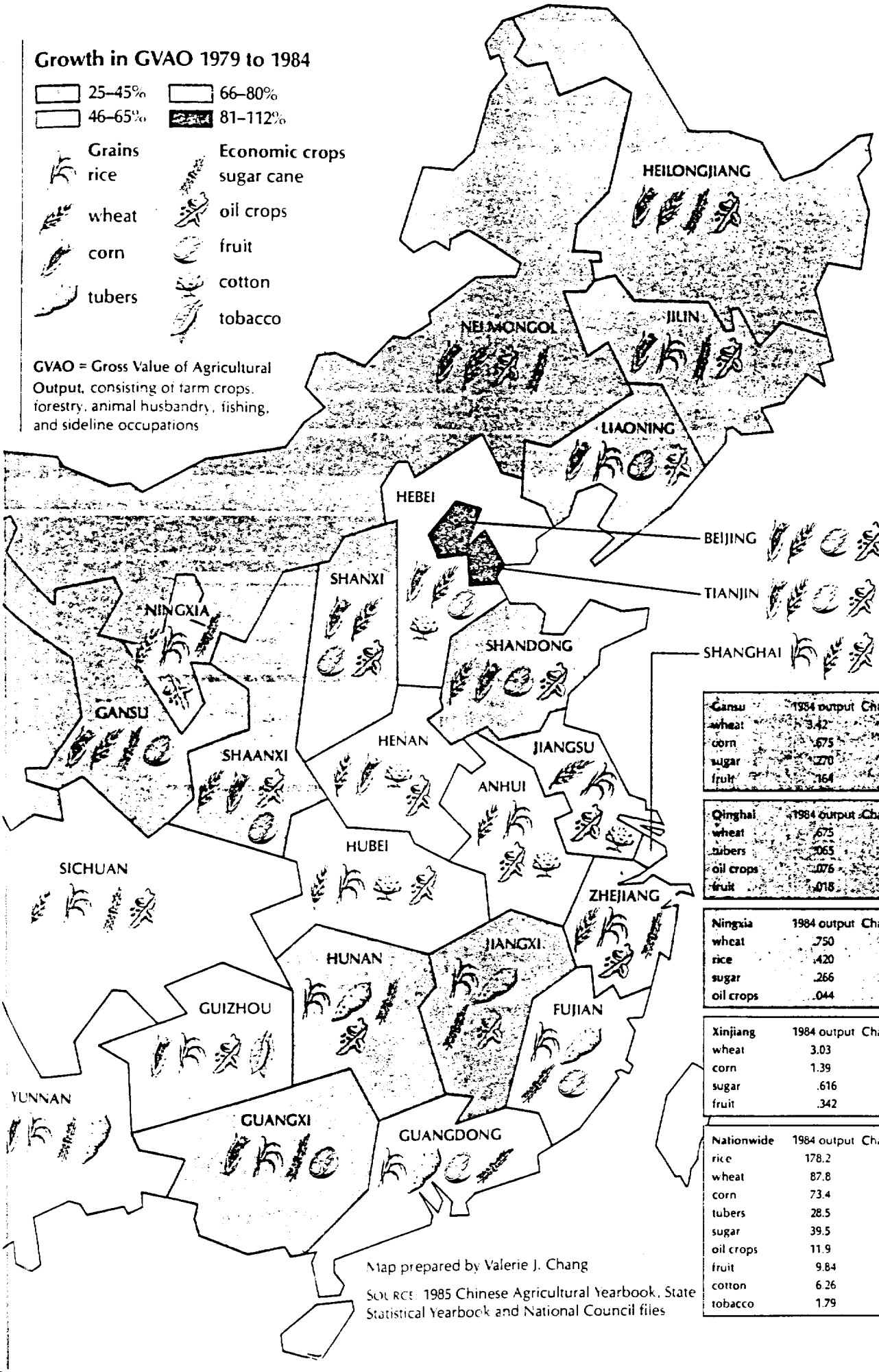
Sichuan	1984 output	Change since 1979
rice	20.3	+42%
wheat	7.03	+37%
sugar	2.26	+6%
oil crops	1.18	+81%

Tibet	1984 output	Change since 1979
wheat	.140	-10%
fruit	.014	+460%
oil crops	.013	+64%

Zhejiang	1984 output	Change since 1979
rice	15.1	+16%
wheat	1.02	+36%
sugar	.707	+6%
oil crops	.339	+25%

Guizhou	1984 output	Change since 1979
rice	4.07	+25%
corn	2.15	+21%
oil crops	.305	+180%
tobacco	.238	+124%

Shaanxi	1984 output	Change since 1979
wheat	4.50	+25%
corn	3.13	+8%
fruit	.262	+103%
oil crops	.193	+101%



Gansu	1984 output	Change since 1979
wheat	3.42	+47%
corn	.675	+2%
sugar	.270	+510%
fruit	.164	+123%

Qinghai	1984 output	Change since 1979
wheat	.675	+40%
tubers	.065	-7%
oil crops	.076	+31%
fruit	.018	+325%

Ningxia	1984 output	Change since 1979
wheat	.750	+78%
rice	.420	+68%
sugar	.266	+1389%
oil crops	.044	+104%

Xinjiang	1984 output	Change since 1979
wheat	3.03	+44%
corn	1.39	+7%
sugar	.616	+108%
fruit	.342	+140%

Nationwide	1984 output	Change since 1979
rice	178.2	+24%
wheat	87.8	+40%
corn	73.4	+22%
tubers	28.5	0%
sugar	39.5	+61%
oil crops	11.9	+85%
fruit	9.84	40%
cotton	6.26	+184%
tobacco	1.79	+90%

Map prepared by Valerie J. Chang

SOURCE: 1985 Chinese Agricultural Yearbook, State Statistical Yearbook and National Council files

Artwork by John Yunson

Briefing Note on Canada's Position in the Chinese Potash Market

General Information

- "Potash" is a general term referring to potassium-based compounds used chiefly as fertilizer. Potassium chloride (KCl), known commercially as muriate of potash or MOP, is by far the most important type of potash.

- Canada is the world's second-largest potash producer, behind the Soviet Union, and accounts for about 40% of world potash trade.

- Potash is mined in Saskatchewan and New Brunswick. Saskatchewan production has been continuous since 1962 and accounts for about 90% of Canadian capacity, while production in New Brunswick began in 1983.

- Nitrogen, phosphorus (provided by phosphates) and potassium (provided by potash) are the three major plant nutrients. They are complements and must be used in the proper balance if the most profitable yield is to be achieved.

Information About Chinese Agriculture

- China is the world's largest agricultural economy, with 69% of its enormous labor force in agriculture (vs 5% in Canada).

- Principal crops are rice (23% of sown area), wheat (21%), corn (13%), tubers (6%), oil-bearing crops (6%) and cotton (5%).

- Crop yields have increased steadily since the 1949 founding of the People's Republic, but the growth since the introduction of the "Responsibility System" in 1978 has been spectacular.

- Between 1978 and 1984, rice yields grew by 35% while wheat yields grew by 61%. In that period, rice production rose 31% and wheat production rose 65%.

- Under the Responsibility System, Chinese farmers have new freedom to decide what crops to grow and how to grow them. More importantly, once the farmer's quota has been met, he can sell surplus agricultural goods at local markets at prices higher than those paid by the state.

- As a result of the crop production increase, the gross value of China's agricultural output (in constant-yuan prices) rose 71% between 1978 and 1984. Rural farm incomes have risen accordingly.

Chinese Fertilizer Use

- Chinese agricultural production has increased so rapidly partly because farmers have used chemical fertilizer (as opposed to manure) as never before. Between 1978 and 1984, chemical fertilizer consumption (by nutrient weight) doubled.

- But soil scientists inside and outside China say farmers have relied too heavily on nitrogen fertilizers which are popular because their effect on plants is immediate and pronounced. But the increased growth also means increased take-up of other nutrients from the soil, particularly phosphorus and potassium.

- Use of chemical nitrogen fertilizers has increased from virtually zero in 1949 to the point where China is now the world's largest user of nitrogen fertilizers.

- As a result, Chinese soil scientists say China's soils--particularly in the south--are increasingly deficient in potassium and phosphorus. This means increased nitrogen use will not increase crop yields as much as it did previously--and after some point more nitrogen will actually decrease yields.

- In effect, through their concentration on nitrogen fertilizers, Chinese farmers are depleting the soils their children will farm. Since all land in China belongs to the government, an analogy can be drawn to a tenant lowering the value of his landlord's house by not maintaining it.

- An indication of the imbalance in China's fertilizer usage is that in 1984-85 China accounted for 21% of world nitrogen consumption but only 3% of world potash consumption.

- Another indication is that China's ratio of nitrogen to potash usage in 1985-85--an unsually heavy year for potash use--was 100:6, compared with a world average of 100:38. Soil scientists say that a reasonable goal for China would be 100:20--which would implies a tripling of present potash consumption, even without increases in nitrogen consumption.

- This problem is occurring in other Asian countries and has already been seen in South Korea and Taiwan. In South Korea, for example, the government attempted to redress the imbalance by requiring farmers to buy a bag of potash fertilizer when they bougth a bag of nitrogen fetrilizer.

- China spends about $1 billion U.S. a year importing fertilizers, but these are mostly nitrogen and phosphate fertilizers. China could reallocate its fertilizer purchases toward potash and spend no more foreign exchange, if only central planners believed the money would be better spent on potash than on other fertilizers.

- Actual purchases are made by China National Chemicals Import & Export Corporation, more commonly known as Sinochem. Sinochem decides only who to buy from, not how much to buy. China's decision-making process is hard for outsiders to become familiar with, but we believe the State Planning Commission decides how much of which fertilizers to import.

Canada's Role as a Potash Supplier to China

- Following are Canadian sales to China, according to Statistics Canada:

1983	536,539 tonnes of product	valued at $59,420,000 Cdn.
1984	577,146 tonnes of product	valued at $71,156,000 Cdn.
1985	194,351 tonnes of product	valued at $24,285,000 Cdn.
1986	310,845 tonnes of product	valued at 27,226,000 Cdn.

Saskatchewan is the leading potash supplier to China, because the province's highly efficient mining techniques and low ocean-freight rates make its prices highly competitive. Note that developing countries sometimes believe that anything from a developed country must be expensive, and that's not true of potash.

- All potash sales from Saskatchewan made outside North America are made through Canpotex Ltd.. Though membership in Canpotex is open to any Canadian potash producer, currently the seven producers in Saskatchewan are members while the two New Brunswick producers are not.

- Canpotex's main competitors in the Chinese market are East Germany, West Germany and Jordan; on a more intermittent basis, New Brunswick, Spain, the U.S. and the Soviets also sell to China.

- Canada is in the best position to guarantee security of supply. Not only are Saskatchewan's proven potash reserves sufficient to continue production at current levels for hundreds of years, but Canpotex also supplies product from ten mines that moves to two terminals in Vancouver via two railways--making even temporary supply interruptions very unlikely. The New Brunswick producers also are developing reputations as dependable suppliers.

- Aside from an annual lecture trip by European potash agronomists, Saskatchewan is the only producing region that does more than just sell potash to the Chinese. In 1983 Canada, Saskatchewan, and the potash industry began funding the Canada/China Potash Agronomic Program in two Chinese provinces. In 1985 the program expanded to another five provinces and now funds research into the effects of potash on crop yields and crop quality at almost 100 sites in the seven provinces. The program also sponsors exchanges of scientific personnel; for example, two Chinese students are now doing graduate work at the University of Saskatchewan.

- Prime Minister Mulroney presented the Chinese with a pilot fetilizer bulk blending plant when he visited in May. Though there are thousands of such plants in North America, there are none in China. We hope this gift will help the Chinese become more sophisticated fertilizer users, particularly in placing more emphasis on balanced application of nitrogen, phosphate and potash. The bulk blending plant will blend these three nutrients into a single product.

For further information, contact:
- Mr. George Barry, Senior Mineral Economist, Energy, Mines and Resources Canada, Ottawa (613-995-9466)
- Dr. Kenneth Pretty, President of the Potash and Phosphate Institute of Canada, Saskatoon (306-652-3535)
- Mr. John Reid, Assistant Deputy Minister, Saskatchewan Energy and Mines, Regina (306-787-2494)

Saskatchewan Energy and Mines
Policy Analysis Branch
December 1986
0163Q

PRESS RELEASE

Canpotex Limited

FOR IMMEDIATE RELEASE

NEW CHINA SALE

A major new sale of Saskatchewan potash to China was announced today by Erik Ekedahl, President of Canpotex Limited, upon his return from that country. The new contract covers an additional 300,000 tonnes of potash for delivery to China prior to December 31, 1987.

"The value of this contract is about $30 million, which represents a considerable price increase over material shipped earlier this year," Mr. Ekedahl explained. "Our total shipments to China this year will be at a record level, approaching one million tonnes, and reflect the success of our market development program, upon which we have spent more than $1 million annually for the last three years. Chinese farmers are beginning to recognize the need to use more potash to balance the large amounts of nitrogen that they already apply, and we fully expect that China will continue to be a major growth market for Saskatchewan potash," he said.

Canpotex is owned by the Saskatchewan potash producers and sells potash to offshore markets in Asia, Latin America, Europe, Oceania and Africa.

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RJH/ls
September 3, 1987

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South China Offers Potential For U.S. Exporters

By Larry Senger

South China offers U.S. exporters potential for agricultural sales. While the main opportunities lie in livestock, feed and related industries, there also is room for sales of other products such as high-value foods, wood and leather.

Good Prospects for Breeding Stock

South China is currently in the process of modernizing and developing its livestock and feed industries. During the next five years, these sectors likely will require substantial imports of breeding stock, feed grains, feed industry and livestock equipment.

Although breeding stock imports declined in 1986 due to a combination of a lack of foreign exchange and stringent quarantine requirements, demand still exists and could translate into imports in 1987.

Development of the livestock sector in South China has resulted in growing imports of dairy animals and hogs for breeding. A joint venture U.S.-Chinese dairy farm in the Guangzhou suburbs imported about 360 bred Holstein heifers in early 1986 to supplement the 180 imported a year earlier.

A U.S.-Thai joint venture in the Shenzen Special Economic Zone three hours south of Guangzhou imported about 500 U.S. hogs in two different shipments in 1985.

A U.S.-Chinese joint venture hog farm near Guangzhou imported roughly 1,900 U.S. hogs in late 1985 and almost 1,500 in 1986. The same U.S. supplier of these hogs has plans to export more breeding swine this year for proposed joint venture farms in Sichuan, Hebei and Guangdong provinces.

These large hog imports represent an investment in producing a leaner, more modern hog than traditionally has been raised in China. This effort has been spurred by the fact that Chinese consumers are willing to pay a premium for leaner pork.

Competition for Sales Is Stiff

In 1987, demand for breeding stock will be affected by the growing tightness of foreign exchange and by stiff competition from Australian and Canadian sources of breeding stock, especially for dairy animals. Chinese health requirements for animals from Canada and Australia are somewhat less stringent than for livestock coming from the United States.

However, South China importers of livestock from Australia and Canada, perhaps because of the less stringent overseas screening requirements, have had more problems getting animals cleared during the local quarantine process. This may translate into some increased interest in U.S. breeding livestock sources.

Feed Needs Must Also Be Met

In addition, South China will require imports of corn and soybeans to meet the demand of its livestock sector for quality feed. Although these commodities currently are being exported by northern China, they are in short supply in the south.

China was active in international corn markets in late 1986 and early 1987, making purchases largely for destinations in South China. China also bought U.S. soybeans in 1986.

China's transportation infrastructure is not developed sufficiently at this point to make shipment of feed grains from surplus to deficit areas economically feasible. Unless there is a concerted effort to transport feed grains from the north to the south, South China will most likely have to look to foreign markets to meet the growing demand for quality inputs for compound and mixed feed.

Industry Is Active in South China

To increase the demand for feed from potential beef producers, the U.S. Feed Grains Council, an industry group (cooperator) that works with the Foreign Agricultural Service on market development efforts, has conducted feeding trials on two dairy farms near Guangzhou to demonstrate the feasibility of raising dairy bulls for beef.

The Council also has sponsored technical seminars on beef butchering and preparation. Several experts from the United States also made frequent visits to the Guangzhou area to discuss the feed grain situation in southern China with local officials.

These efforts in South China began to pay off in late 1986 when China purchased several shiploads of U.S. corn, much of it destined for southern China.

Possible Sales for Other Commodities

Although the greatest trade potential is currently in the feed and livestock sectors, South China promises to become a growing market for other commodities, such as wheat, high-value foods, wood products and leather materials.

South China has traditionally been a rice-consuming area, but tastes are changing and demand for wheat products is growing. Relatively high-priced, high-quality western-style bakery products sell well in Guangzhou. This shift in tastes could lead to increased imports of wheat into southern China.

U.S. Wheat Associates, a cooperator association, continues to push ahead with these efforts in southern China. The group has a well-developed baking technology transfer program in Guangzhou. Several bread, pastry and noodle experts make regular visits to Guangzhou to give seminars at the Sino-American baking school, which trains baking students from throughout China.

Demand for Western Food Is Growing

The number of international hotels in South China is expanding rapidly, resulting in a small, but growing market for western cuts of high-quality meat, high-quality fresh food specialty items (oranges, strawberries and avocados), wines and other western-style prepared foods.

To take advantage of this trend, last year, the Foreign Agricultural Service sponsored its first menu promotion at a major hotel in Guangzhou that caters to tourists and foreign business representatives.

This "American Food Fortnight" promotion featured U.S. beef, vegetables and wines. The promotion, particularly for U.S. steak, attracted more customers than usual to the participating hotel restaurants.

As a result of the favorable response to U.S. beef products during and after the promotion, the hotel management decided to discontinue sales of New Zealand beef in favor of the U.S. product.

The hotel also continued to sell U.S. wines after the promotion, and has noted wide acceptance and popularity of U.S. "wine coolers."

South Chinese Have More Hard Currency To Spend

Because of its proximity to Hong Kong, local Chinese in South China are relatively well off and have hard currency to spend. In southern China, unlike in most of the country, Chinese are not restricted from entering international hotels.

Although it is probably overly optimistic to predict an early, large market in South China for western-style prepared foods, large segments of the urban population in Guangzhou and the Shenzen Special Economic Zone have access to specialty outlets catering to western tourists and like to experiment with these foods.

In time, this could lead to new markets for high-value food products. However, the United States will face stiff competition in this sector from Australia, New Zealand and the European Community.

Demand also exists for wood and leather products. Current wood product import demand is primarily for logs. But opportunities to expand into sales of processed products also are being examined. The National Forest Products Association is doing a study on the Chinese market for lumber.

In addition, both internal needs and export demand for leather goods may generate import markets for hides and skins, as well as semi-finished and finished leather. ■

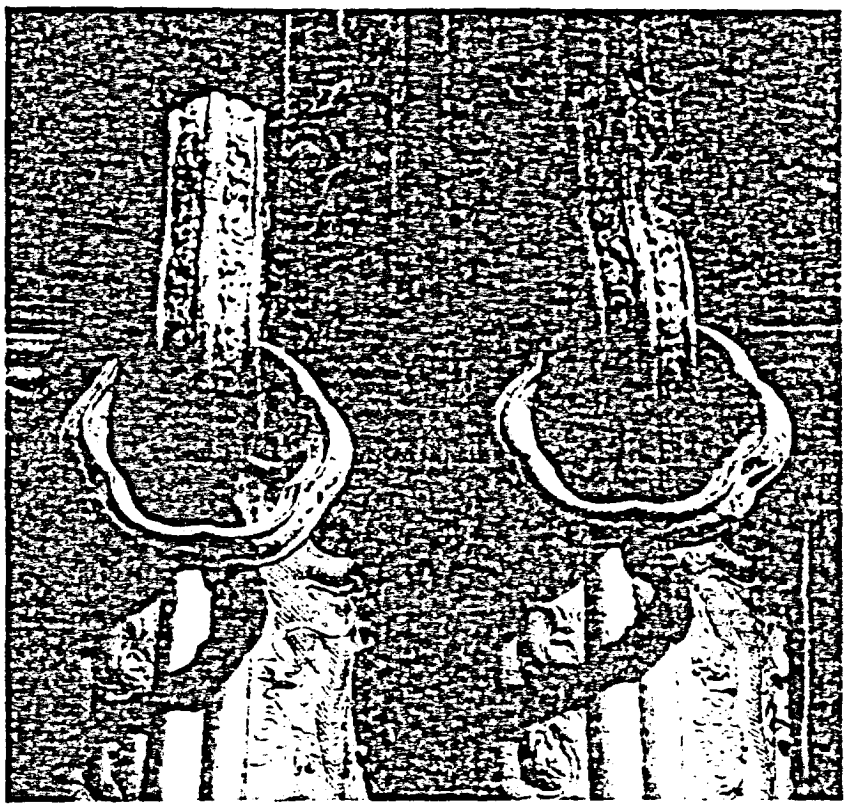
The author is the U.S. agricultural trade officer in Guangzhou.

Asia Pacific Foundation of Canada
Fondation Asie Pacifique du Canada

ISSUES

Volume 1, Number 1, Spring 1986

China: Cross-Cultural Business Skills



Kent Lindsay Image Finders

Slowly, the doors to China are opening . . . .

Introduction

Canadian business views China today as the new commercial frontier. Although Canada has been shipping wheat and other raw materials to China since the early 1960s, with the much-heralded "opening of China's doors" and the sudden escalation of demand for manufactured goods, there is a feeling in the business community that valuable new inroads are possible into this billion-person marketplace. In a record 1985, the Canadian Embassy in Beijing handled approximately 2,000 business visitors, up significantly from 1984.

Any Canadian businessperson who believes that the exploitation of the Chinese marketplace is a simple matter of accompanying a trade mission, or supplying a marketable product, or perhaps trying to trade on the name of Norman Bethune, is in for a rude awakening. Negotiating within the framework of a complex, ancient and modernizing civilization entails careful preparation: a first-class competitive product that they need, well-disciplined patience and finely honed flexibility in attitude toward what "the bottom line" means.

But even when Canadian entrepreneurs have satisfied these criteria, they often overlook one of the most critical requirements for success in China: the ability to bridge the cultural gap between our two nations. Unless Canadian companies understand the social, cultural, political and economic contexts of the Chinese world, unanticipated problems will most certainly arise during negotiations because patterns of thinking and styles of persuasion are not universal: they are determined by socialization in a particular culture.

So that Canadians might be better prepared to understand the historical cultural contexts to do business in Asian and Pacific countries, the Asia Pacific Foundation of Canada organized a Seminar on Cross-Cultural Business Skills. The following paper was presented at this Seminar by the Foundation's Vice-President of Education and Culture, Jan Walls. Dr. Walls has a Ph.D. in Chinese language and culture, has lived and worked in both China and Japan, and has served as a Canadian interpreter and adviser on governmental and corporate missions to these two countries.

The Cultural Context of Communication

Readers of *Murphy's* Law may recall Barth's Distinction, which says: "There are two types of people in the world — those that divide people into two types, and those that don't." In the same spirit,

I invite you to consider "Walls' Distinction", which states that there are three types of people who offer advice about dealing with China: sinophiles, sinophobes, and sinologues. The sinophile typically exudes enthusiasm for most things Chinese and directs our attention to the unprecedented opportunities for mutual benefit in dealing with China today and tomorrow. The sinophobe typically focuses on the difficulties of dealing with China yesterday and today and is rather cynical about the opportunities of tomorrow, only reluctantly admitting that since the Americans, Japanese and Australians are over there actively pursuing their interests, we probably should be doing something as well, even though we will be disappointed. Enter the sinologue.

The sinologue takes a more objective approach: exudes positive enthusiasm for the *challenge* of untangling and clarifying the jumbled mass of opportunities and constraints that constitute China today, considers each unique mixture of opportunity and constraint within its own relevant context — local, regional, national and international — summarizes the situation, and lets you draw your own conclusions.

As a committed sinologue (some would say a sinologue who should have been committed long ago), I am one who takes perverse pleasure in being able to switch approaches at will from critically sympathetic to sympathetically critical; to examine the evidence; to draw a tentative conclusion; then to find out what the Americans, Japanese and Australians are doing, revise my conclusion and make recommendations accordingly. Ultimately, however, I must admit that most attempts to describe China, whether by sinophile, sinophobe or sinologue, are rather like giving responses to a Rorschach inkblot test: they tell more about the observer than about the observed, since most observers tend to see what they expect to see, need to see, or want to see.

One further disclaimer: I get very nervous each time I make generalizations about China and the Chinese. Having lived and worked in Beijing, and having visited most major cities in various parts of China, I feel safe in saying that among this nearly one fifth of all mankind, there is at least as great a degree of cultural and linguistic diversity as can be found in all of Western Europe — yet we rarely lump those countries together and generalize about Western Europeans. My only reason then, for ever attempting this kind of exercise with the Chinese is that I know if I don't someone else will, and at least I can exercise some control over what *I* say.

The Importance of Context in Communicating

> One of the most highly developed skills in contemporary Western civilization is dissection: the split-up of problems into their smallest possible components. We are good at it. So good, we often forget to put the pieces back together again.
>
> This skill is perhaps most finely honed in science. There we not only routinely break problems down into bite-sized chunks and mini-chunks, we then very often isolate each one from its environment by means of a useful trick. We say *ceteris paribus* — all other things being equal. In this way, we can ignore the complex interactions between our problem and the rest of the universe.
>
> Alvin Toffler, "Foreword," in Ilya Prigogine & Isabelle Stengers, *Order Out of Chaos*, Toronto, 1984

Two fundamental approaches have evolved in the world as bases for human behaviour: one is the concept of individualism, the other is the concept of interdependence. Both approaches attempt to solve the primary human dilemma of reconciling individual liberty with the equal need of social or group responsibility.

On the one hand, the concept of individualism is the logical result of a set of values and a belief system that are products of the Western "atomistic" world view as described in Toffler's words above. The concept of interdependence, on the other hand, is the logical result of a set of values and a belief system that arise within the Eastasian "organic" (or holistic) world view — that is, seeing entities or organisms as interdependent "wholes" rather than independent "parts".

When these two approaches reach their irrational extremes, one becomes "rugged individualism," which ignores or discounts the need of humans for social cooperation to achieve individual fulfillment, and the other "ragged collectivism," which ignores or discounts the need of persons for individual freedom to achieve social fulfillment. Most mature and stable societies evolve systems that at least temper such extremes, even when they naturally lean toward one of the two sides. This tempering is a form of compromise, and regarded as an unfortunate necessity.

A cultural preference towards either individualism or interdependence has arisen out of concrete historical experiences and usually is assumed to be valid for you because it is valid for me. This assumption is false, of course, because it ignores the importance of context in the conditioning of our perceptions of reality and thereby what determines meaning for us. It is these false assumptions arising from contextual ignorance that are *the* primary cause of misunderstanding in intercultural communication.

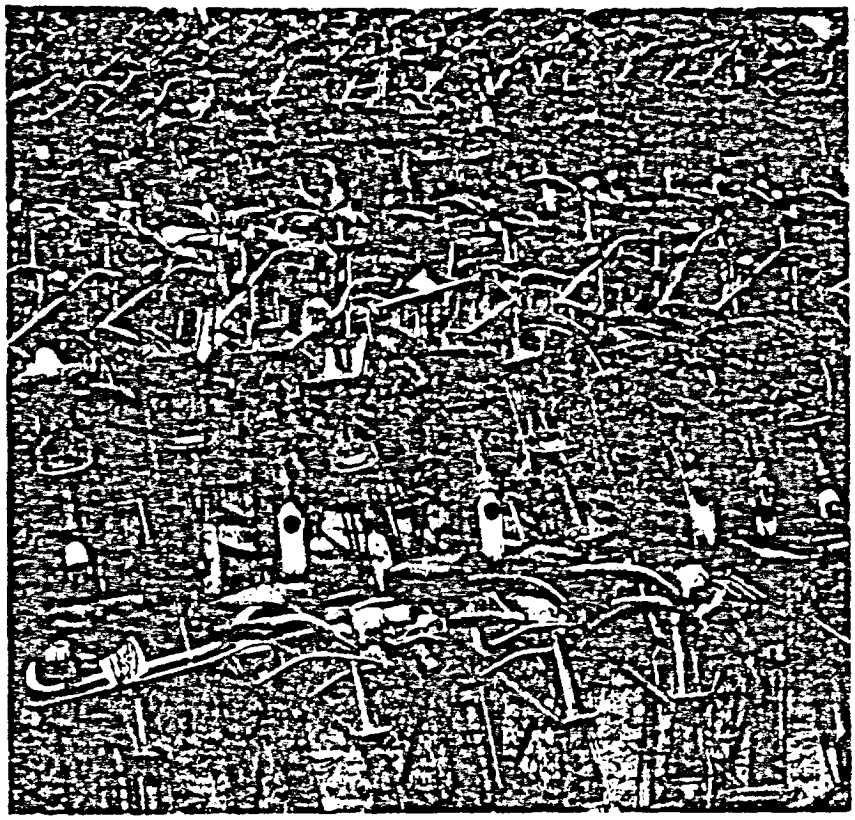
One of the Western world's leading authorities on cultural and nonverbal aspects of communication, Edward T. Hall, makes the following observation in one of his many exciting books on the subject, *Beyond Culture*:

> A high-context communication or message is one in which most of the information is either in the physical context or internalized in the person, while very little is in the coded, explicit, transmitted part of the message. A low-context communication is just the opposite; i.e., the mass of the information is vested in the explicit code.... Although no culture exists exclusively at one end of the scale, some are high while others are low. American culture, while not on the bottom, is toward the lower end of the scale. We are still considerably

above the German-Swiss, the Germans and the Scandinavians in the amount of contexting needed in everyday life. . . . China, the possessor of a great and complex culture, is on the high-context end of the scale.

Thus when in the past we spoke of our stereotyped Chinese as "inscrutable" we were in fact revealing our own "low-context" bias towards explicitness in describing the Chinese "high-context" bias towards implicitness. If we can understand and accept distinctions in the ways people in different cultures express themselves, we can also understand how, in the past, these have formed a main obstacle to our effective communication with the Chinese.

Primary Orientation and Chinese World View



One-fifth of mankind requires a certain amount of conformity.

When Rudyard Kipling wrote "Oh East is East and West is West, and never the twain shall meet," he was indulging in a subjective fantasy, a fantasy that assumes the existence of an absolute and standard viewpoint from which the world may be observed and analysed objectively.

In fact, Kipling's own viewpoint was narrowly Eurocentric, for the Asiatic continent and subcontinent may be called "East" only if viewed from Europe or Africa. From our own North American perspective, Western Europe is the Near East, Eastern Europe is the Far East, East Asia is the Near West, and Central Asia is the Far West. Recognizing the relativity of viewpoints, and accepting the legitimacy of differing perspectives, is the starting point for clarifying (not "transcending") contextual differences and moving towards intercultural understanding.

What follows is a brief statement of four cultural characteristics that are implicit in a typical Chinese act of communication. They grow out of the "primary cultural approach" I have already described as an interdependent view of human endeavours as opposed to the individualistic. If we accept the fundamental importance of this orientation in Chinese culture, then we can better appreciate the validity of these cultural characteristics.

1. Emphasis on Responsibility Before Rights

Individual rights have always been defined by social and family roles in China, in direct opposition to our own orientation. We almost unconsciously view clearly defined social roles as factors that inhibit individual fulfillment. We tend to postpone judgement on social roles until individuals have had a chance to demonstrate their competence. Generally, Chinese have assumed that organic responsibility — responsibility to the greater whole — precedes individual rights.

2. Emphasis on Conformity and Harmony Before Diversity

Diversity as a value in Chinese culture has generally been encouraged but only to the extent that it does not disrupt the harmony of the group. Again, this is the opposite of our preferred orientation. We tend to encourage co-operative harmony, but only to the extent that we do not stifle individual motivation. The very diversity of regional cultures in China has the effect of reinforcing the need to maintain conformity and harmony.

3. Emphasis on Interpersonal Relationships over Formal Systems

The Chinese have historically shown an overriding concern with self-discipline and the development of mutually beneficial interpersonal relationships rather than formally defined and legally protected systems, which they perceive as being too impersonal to be relied upon in the long run.

This orientation helps to explain the traditional Chinese distrust of written legal systems as opposed to personal moral authority. Once again, our view is almost the opposite; we institutionalize depersonalization, symbolized by our vesting of all authority in written laws and in written contractual agreements. China *is* trying to move in this direction, but such a fundamental change in orientation is not easy to imple-

ment because it involves attitudinal changes to culturally embedded ideas.

4. Emphasis on Ritualized Behaviour Before Spontaneity:

This emphasis results in what we usually regard as suppression of individual spontaneity in group situations, and again it is almost the opposite of the North American approach, which is to dispense with formalities and get to the heart of issues as quickly as possible. Rituals take time, and "time is money." Even though most Chinese today will admit that "shijian jiushi jinqian" (time is money), ritualized behaviour continues to be almost "in the blood." It exists for a practical reason: it provides an acceptable framework ("context") for developing personal relationships. It also gives individuals a sense of confidence because they are unlikely to do or say "the wrong thing" socially or politically. Only after a sense of personal involvement, trust and confidence has developed are rituals reduced substantially.

Context and Perceived Meanings:

To most Chinese any transaction, whether business or social, is almost inconceivable apart from its holistic context, i.e., its proper place in an entire network of interdependent relationships. And this phenomenon is simply a natural extension of the fact that in China a person is conceivable only in terms of his/her affiliations — family, work or political.

To give an example drawn from family life: a person is very seldom addressed by his personal name. As a child, one is identified and addressed as "Elder Brother," "Second Brother," "Elder Sister," "Second Sister," and so on, which immediately plays down what we would call one's individuality in favour of one's family role — patterns of expected behaviour in relation to the rest of the family.

When a girl marries into a family, she steps into the web of privileges and responsibilities attached to the role her husband plays in the family network. There is room for individuality to be sure, but it must be di-

Some Do's and Don'ts:

1. Do not expect the kind of directness Westerners are accustomed to. There is a Chinese saying "Li duo, ren bu guai" which means that "people never take offence at good manners." In practice, this often means that a person in China will go out of his way to avoid embarrassing, disappointing or offending you by alluding gently to a negative answer rather that coming right out and saying "no" even when the answer is clearly "no". Most Chinese (and Eastasians generally) prize subtlety and harmony as much as we prize directness in "calling a spade a spade". This attitude is changing in China little by little, but at present still prevails.

2. Never allow enthusiasm to override good manners. Exude "restrained enthusiasm" about your own product or service. Although lack of enthusiasm will be interpreted as reflecting a lack of confidence, unbridled enthusiasm will be seen as lack of self-control.

3. Never interrupt your counterpart. Even a supportive statement or significant counterexample is an interruption and will be interpreted as evidence of bad manners.

4. Do not let yourself sound, look, or feel like a sales person. Forget about the superiority of your product or technology — that will have been assumed before the Chinese agreed to see you. Instead, project the image of a competent problem-solver looking for the best solution to a supply-demand situation through mutual co-operation, and for mutual advantage.

5. Do, whenever possible, take your own translator/recorder to meetings. Having a written record of discussions is an aid in keeping some control over the negotiations.

6. Do not build up your own product or service by putting down the competition. Your strength should be demonstrably, not rhetorically, superior. Any undue harshness directed at your competition will be seen as insecurity on your part.

7. Do not display arrogance. Most Chinese abhor it, especially in foreigners. Modesty has been traditionally, and is still, greatly respected in China, and the Chinese appreciation for understatement approaches that of the British. The Chinese have always said "When you have real musk, its fragrance will speak for itself" "you she, zi-ran xiang." The late Premier Zhou Enlai was a supreme master of the highly prized art of displaying self-confidence in a modest way, winning for himself the near universal admiration of Chinese and foreign observers alike.

8. Do not let political statements or connotations (either pro- or anti- socialist or capitalist) creep into your presentation. It can't possibly benefit your case — and might harm it. Most Chinese are not in the least interested in our political convictions, or in our opinion of theirs.

9. Do not remind the Chinese of their technical or managerial backwardness. They are only too aware of it and will remind us and themselves frequently enough. What they want from us is affordable, adaptable, workable solutions to their technological and managerial problems.

10. Do not lose your temper publicly. It may be taken as evidence that you have abandoned the overall harmonious relationship within which business is conducted, and this harmonious context is of paramount importance. If the harmony is disrupted by a public display of temper or extreme impatience, the core of the relationship has been damaged, and the whole game may be over.

rected toward the better performance of one's already established role in the family.

Over time, most Chinese generally come to identify so closely with family that they cannot even conceive of themselves outside its context. This is part of the reason why, in spite of years of separation from family, they retain the sense of belonging and of responsibility much longer than we normally would expect. In the same way they gradually form similar identification with other groups. Thus, the Chinese generally do not expect to be accepted into any voluntary group as quickly as a North American might.

This conception of self in terms of a network of relationships based on privileges and responsibilities has carried over into the workplace, particularly since formal affiliation with a work unit in China is nearly as permanent and stable as family affiliation. Permanent and stable relationships must be based upon mutual feelings of trust and long-term reliability. Therefore, as we often hear from those who know, "most Chinese don't like doing business with strangers," no matter how good the offered product or service may appear.

In our own context, where contractual obligations traditionally are enforced by written laws, we need only assure ourselves of the quality of the product or service we seek and do not necessarily view a single transaction as part of a more complex and long-term relationship.

Coincidentally, this legal-contractual way of relating to others also serves to reinforce our sense of individual, as opposed to collective, identity.

To most Chinese (and perhaps to Eastasians in general), the most important aspect of a transaction is the mutually beneficial interest of the parties involved, and a contract is viewed as the public and formal documentation of an important stage in that ongoing relationship; hence the tendency, traditionally, to expect that a contract may be reopened for further negotiation if external conditions — that is to say, the context of the contract — change after the signing. Contracts may be viewed as binding so long as the conditions or circumstances perceived at the time of the signing are unchanged when the time for execution arrives.

Historically, most Chinese have

Moreover, loss of temper indicates lack of civility, and no Chinese would trust an uncivilized partner, Chinese or foreign. If your patience wears thin, or you feel a deadlock has been reached, it may be a good idea to let the matter stand until a third party can explore the problem and possibly mediate to everyone's advantage.

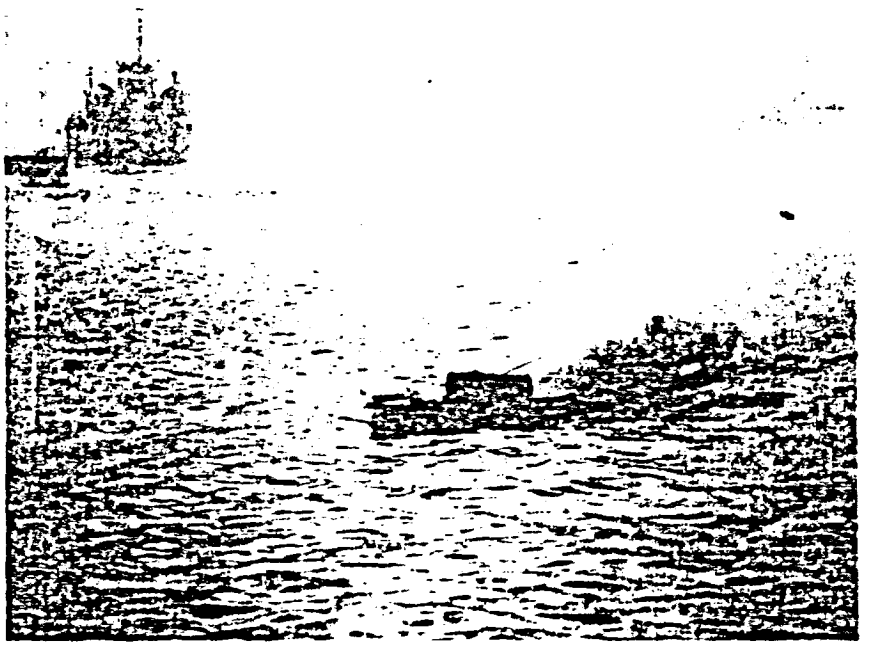
11. Do demonstrate as much flexibility as possible without compromising the "mutuality" of the mutual benefit you're negotiating. Be firm but not brittle, like the bamboo whose admirers over the centuries have almost formed a cult. Chinese almost worship astute compromise (the proverb says "Rang ren san fen bu wei shu": "A 30% compromise is not defeat"), but they have nothing but disdain and distrust for anyone who backs down from a basic stand too quickly and without apparent good reason. Therefore always explain any compromise or change in your original presentation or negotiating stance. Chinese generally don't like surprises, and that includes dramatic and unexplained compromises: if the reason is not explained or very obvious, they will assume that you are concealing your real reason, which could not be a noble one, or else you would have offered an explanation.

12. Do not offer unsolicited advice outside your own field of expertise. Chinese hosts tend to express their own shortcomings and problems freely in many fields — economic, political, social, technical — but they do not expect a visitor to agree with them overtly. Without denying that they may have real problems, try to stress the positive angle: it is a fact that over the past 5,000 years Chinese *have* solved more problems than we have. When you do offer advice in your field, try to express it clearly, but with tact, consideration, and appreciation of the fact that there may be reasons, however unapparent to us, why the obvious solution has not been applied in a particular circumstance. Your Chinese hosts will prize tactfulness and consideration as much as they prize their own.

13. Do try to avoid the urge to parade your knowledge of things Chinese in front of Chinese hosts. Especially avoid stating categorically that "Chinese prefer this" or "Chinese never do that," or "Chinese like to eat this" or "never drink that." Rather, ask for confirmation of generalizations or "facts" you have read or heard: "Is it true that Chinese often prefer this" or "seldom like that"? China may occupy only one-twentieth of the world's surface, but its one-fifth of mankind is too complex and heterogenous for anyone to lay claim to much expertise.

14. Do, in general, avoid the term "Westernization." "Modernization" includes some aspects of "Westernization," but although most Chinese seem wholly in favour of modernization, they want no more than selective Westernization, for many aspects of the West are very disquieting, even repulsive, to them. Remember, China was "modern" when our ancestors were shrouded in the dark ages, yet we have never called our process of catching up with them "Easternization".

15. Do remember that, much as positive change is desired by most Chinese, officially and privately, the weight and inertia of thousands of years of complex and sophisticated cultural tradition is not likely to be profoundly changed for some time. The sheer mass of interrelated parts that must be correlated to achieve anything beyond the superficial level simply staggers the imagination. So much of what must be changed is either beneath the surface, between the lines, in the back of the mind, culturally embedded, or otherwise part of the unspoken but assumed context, that almost any task in China is bound to be far more complex and challenging than would be the case here or in any other "low-context" culture.



Busy Shanghai harbour: the main entrance and exit for most of China's trade.

viewed a contract as a commercial document that defines the *desired* outcome of the transaction. We, on the other hand, view the contract as a legal document that defines the responsibilities of parties to each other and to third persons. The Chinese would consider this definition an assumption underlying the contract, rather than its substance.

Apart from the "interdependent" orientation that distinguishes the Chinese sense of identity from our "individual" orientation, there is another factor that explains why most Chinese place such a high premium on extended and holistic relationships: they are accustomed to a supply-demand situation wherein "good relationships" (commonly called "guanxi") are the only assurance of supply. Since the Chinese market itself has not usually been able to respond quickly or adequately to demand, the only means to ensure supply has been the supplier's continued sense of good will and obligation toward the user.

This almost unconscious assumption underlying domestic business relationships in China may also be present in negotiations with foreigners. Incidentally, when the Chinese sometimes appear anxious to sign a "memorandum of understanding" with foreign delegations on their first visit, they are usually striving for a commitment to *try* to develop a mutually beneficial relationship because they know that most delegations visit local hosts in several cities, and often the first one visited may be the last one recalled when summing up the mission.

A potential source of confusion in transactions with China is that face-saving communications are often misunderstood by the Westerner. Chinese often like to avoid saying "no" too directly, and will use a roundabout way or a euphemism so as to avoid spelling it out and having to witness the visible disappointment of the other party, which would cause a loss of face for the visitor.

To constraints such as these add the relatively long chain of command through which most substantive issues have to pass in China, complicated by the requirement for lateral approval at each level of the chain, and you have great potential for a bureaucratic morass.

Also obliquely stated reservations or concerns at various levels of the chain of command may have become blurred and difficult to respond to when expressed. This is often interpreted by the Westerner as indecisiveness or bureaucratic lethargy on the part of the Chinese, when in fact it is a manifestation of the traditional preference for implicitness.

This difference in approach stems from a combination of differing organizational and cultural contexts. The position that the Chinese negotiator expresses has most likely been arrived at by a group approved within his own organization and perhaps even cleared with other lateral organizations. As a result, he has relatively little authority to deviate from the original position without prior consultation. Hence, the ideal scenario is one in which fundamental agreement has already been reached, leaving only superficial details to be thrashed out at the formal stage of negotiations.

Lack of understanding of the contexts, both cultural and bureaucratic, of immediate Chinese needs causes much waste of time through generating obstacles to agreement that would have been avoided if more effort had been put into clarifying the contexts, immediate and historical, of negotiating in China with Chinese. Hence the common advice that the Westerner should take a knowledgeable and trusted interpreter (linguistic and cultural) to China. Many of these people are available, some Chinese Canadians, some English or French Canadians with years of experience in dealing with China.

The Context of Business Transactions in China

Typical of our misconceptions about China is that, by one set of standards, China is a Third World country. Yet by another set, it can be seen as one of the world's most advanced and sophis-

ticated civilizations momentarily reeling from a series of technological setbacks suffered over the past century, that are a mere "blip" in the long panorama of Chinese history.

Historically, the Chinese government has had extensive, but not always beneficial relations with foreign peoples. Under the last dynasty, foreigners were usually regarded and treated as inferiors because they had not mastered the intricacies of Chinese civilization. (The significant exceptions to this rule were the Jesuits and other missionaries who took the trouble to master the language and the culture, but their motives were often suspect and considered subversive.) Later, foreigners demonstrated their superiority by destroying China militarily and imposing their terms on a defeated nation. Only recently have the Chinese begun to come around to the view that we can truly interact as equals; this was inhibited by Mao's belief that "Either the East wind will prevail over the West wind, or the West wind will prevail over the East," and by the unfortunate Chinese experience with the Russians, who looked down upon them.

Historically, also, most Chinese have regarded business people as being at the bottom of the ladder of social respectability, ranking below gentry, peasants, and artisans, in that order. Maoism only fed this traditional anti-business bias of the Chinese. It is only very recently that business people in China have been accorded respectability officially and openly. Now that the marketplace and distribution system are recognized as indispensable for "modernization," business people have gained more prestige than ever before in recent history.

Another observation on the recent historical context of business transactions in China: enterprise managers and executives may have had responsibility for negotiating contracts, but they have not had authority as we have seen to make important decisions without approval from others. When these were party bureaucrats and other senior officials, whose primary responsibility was to avoid making ideological mistakes, responsibility and authority were seldom to be found at the same table during the negotiation process.

Most recently, there is a trend towards giving more authority and responsibility to people with technical expertise in leading positions in enterprises. This decentralization makes it harder for Westerners to keep tabs on decision-makers in different enterprises, but it may shorten somewhat the length of the negotiation process. Most Chinese enterprises still use the committee system for decision-making where we might delegate a competent and trusted individual, but the process nevertheless seems to have been streamlined with the recent implementation of economic reforms.

A word about the historical political context: A reason why Chinese negotiators may hesitate where you or I would leap at an opportunity is that motivation in China has been, until recently, governed largely by disincentives rather than incentives, that is, by punishment for mistakes more than by reward for successes. The transition towards a more positive "reward based" incentive system is now well underway, but it takes time to gain real acceptance among people who have in the past experienced real punishment for mistakes and only symbolic reward for success.

Goals and Context Interpretation:

Even though your immediate goal may be a sales contract, such an outcome should be regarded as secondary, during negotiations, to your ability to help a Chinese partner achieve his goal of acquiring the right equipment, technology or managerial expertise to get the job done. Your case will be strengthened by the degree to which you can convince your Chinese counterpart that you have the best product or service to help him achieve his immediate goals at a competitive price.

Remember to familiarize yourself with the long-term goals of your Chinese counterpart, and try to view them in terms of your own. If the immediate goals of both sides can be linked to the long-term goals of both and explained to the Chinese in that light, then the stage will have been set for a long term relationship that may start with immediate benefits for both parties in the transaction.

Conclusion:

Our first concern then in dealing with China must be to clarify in our own minds the relevant contexts (historical, economic, political, cultural, international, national and regional) of every potential project. As we do so, three crucial factors should emerge whose relative balance determines everything: opportunity, constraint, and trend. The overall trend in China today seems to be the creation of conditions wherein the new opportunities for profitable co-operation will be perceived as outweighing the traditional constraints.

If we do our homework and take care to understand the fundamentally different nature of the problems faced by our two societies, the different pasts we are trying to come out of, the common future we are trying to build, and the different constraints we feel in working toward our respective goals, we may (in the words of one China expert) "discover how diversity can be made to enrich an association rather than poison it. Neither the normally placid Chinese, nor the normally jaunty American, is inscrutable, unless one fails to scrutinize."

Two books that are very useful for preparing to communicate effectively with Chinese counterparts are:

Lucian Pye, *Chinese Commercial Negotiating Style* (Cambridge, Mass.: Oelgeschlager, Gunn & Hain, 1982).

Edith Terry, *The Executive Guide to China* (New York & Toronto: John Wiley & Sons, 1984).

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This paper is available in French

The China trade: making the deal

Lucian W. Pye

A companion article begins on the facing page.

In the first nine months of 1985, U.S. companies formed more than 800 joint ventures with state enterprises in the People's Republic of China—compared with only about 900 in the previous five years. Despite this seeming explosion, real—financial—commitment has not yet occurred. Direct American investment totals only about $1 billion out of $14.6 billion of all foreign investment in China; if you exclude offshore oil exploration, the figure dwindles to about $150 million.

"Many U.S. CEOs have been caught up in the 'Westchester County syndrome.' They rush over to China simply to score points at the country club."

U.S. executives often fail to reach real commitments because they can't get the knack of Chinese negotiating practices. The Chinese may be less developed in technology and industrial organization than we, but for centuries they have known few peers in the subtle art of negotiating.

When measured against the effort and skill the Chinese bring to the bargaining table, American executives fall short. They often seem unsure about priorities and vacillate about their purposes. When compounded by the headlong enthusiasm Americans show at the general prospect of any new market—and China's market is a vision of one billion people—such uncertainty is a serious liability.

Part of the reason priorities remain uncertain is that executives feign initial interest as a public relations ploy to prove to stockholders how up with the times they are. CEOs get caught up in what has been called the "Westchester County syndrome"; they believe they can score points at their country clubs or among business associates by boasting that they've just been to China. When post-Maoist China opened up to U.S. business, a flock of such executives rushed over and rather casually and enthusiastically negotiated letters of intent. Then they sent subordinates abroad who had to work out the contractual details. Because they had made commitments, however vague and undefined they seemed at the time, the first visitors had played into Chinese hands. Further negotiations turned the generalities into formal agreements. These pacts gave the Chinese undue and definite advantages.

Chinese negotiators respond to our seeming lack of thought with tactics that are almost certain to make us feel that we have been taken. While U.S. executives nurture unreasoned hopes about capturing the China market, the Chinese come back with a very clear priority about the acquisition of advanced technologies or assistance in selling abroad to earn foreign exchange. Then when Americans finally get down to negotiating a particular contract, the Chinese return to generalities before they will discuss specifics. The result is often confusion and no deal.

Broadening commercial relations will unquestionably benefit the interests of both countries. But all sorts of negotiating roadblocks have worked against successful agreements. Some are these differences in priorities; others are cultural in orientation. Although I cannot give detailed suggestions for handling a particular deal, I want to sensitize U.S. business people—to the rationale of Chinese practice. Executives who learn the rules will find that they can have fruitful associations with Chinese trading partners.

[Continued on page 76]

Mr. Pye, Ford Professor of Political Science at MIT, is a specialist on Asian affairs. He has been an adviser to U.S. government officials negotiating with the Chinese, and his research on the experiences of American and Japanese business negotiators led to his book, Chinese Commercial Negotiating Styles *(Oelgeschlager, Gunn and Hain, Inc.). His most recent book is* Asian Power and Politics *(Harvard University Press).*

[Continued from page 74]

Chinese rules

American difficulties surface from the very beginning. Companies often, for example, find it hard to choose among possible partners – especially because they can't pin down their particular capabilities. Some Chinese enterprises have limited geographical scope. Others, compartmentalized along functional lines, are severely constrained by the government's bureaucracy. Consequently, few potential associates can promise exclusive rights to the Chinese market. In 1985, a large Midwestern cable manufacturer thought its contract with a Chinese state enterprise had guaranteed exclusive rights, then discovered a French competitor had made a better deal with another company.

More important, once Americans make this agonizing choice, they find they've only cleared a preliminary hurdle. The Chinese seem to step back from an actual agreement and begin negotiations by presenting a letter of understanding that outlines general principles. U.S. managers are often put off because they want to reduce misunderstandings by immediately getting to details. They're not averse to the rhetoric of preambles, but they want to build a relationship on facts that can't be argued with. For their part, the Chinese stress friendly introductions as a way of establishing the relationship's dynamics and determining its character. Their rationale is pragmatic: in laying down general guidelines for all future dealings, they gain leverage that they can use later by calling the partner to task for not abiding by the principles. Americans think this process is only a warm-up ritual. They believe that once hard bargaining begins, positive personal feelings should not intrude except to reinforce a basic level of trust.

As I have said, Americans do sign such letters of understanding, but usually because they don't understand what can happen next. For example, Westinghouse Canada thought that it was well on its way to selling some large steam turbines to the Dong Fang Steam Turbine Works of Chungdu when the company worked out a letter of understanding with a Chinese team visiting North America. What followed, however, was not a sale but two sessions of intense negotiations in Beijing. The Canadians made all the first moves and were then counterpunched by the Chinese, who pressured Westinghouse to live up to the spirit of the original understanding by accepting a lower price. Only after the Canadian team had returned home for a second time was an agreement reached, by telex.

The story of the reopening of diplomatic relations between the United States and China in 1972 also illustrates the point. Henry Kissinger abandoned the long-standing American focus on specific issues and entered into negotiations with Zhou Enlai and Mao Zedong by concentrating on a general agreement to cooperate.

Kissinger played down particular problems because he wanted to stress the symbolic importance of a new relationship, create the general impression of great developments, and unnerve Moscow by suggesting that the balance of power in the world might change. He easily went along with the Chinese preference for communiqués and statements that defined general principles. In turn, however, the Chinese would repeatedly pressure him by declaring that Washington did not live up to the spirit of the principles.

In contrast, Secretary of State Cyrus Vance negotiated from the typical American lawyer's need to clarify certain issues and win agreement on details. Of course, Vance was forced to get more specific because he had to work out precisely the way relations would be normalized and formal diplomatic ties established. The Chinese clearly preferred Kissinger, whom they believed they could manipulate because of his sensitivity to the relationship's symbolic dimensions. In retrospect, Kissinger probably tried to sweep too much under the carpet and left his successors too many difficult problems. He probably also erred in creating an atmosphere that gave the Chinese license to warn Washington it would damage the entire relationship if it did not yield to Chinese wishes on the tough, concrete issues.

Establishing the relationship

Even with such caveats, however, those U.S. executives who build up their relationships with the Chinese by making certain that the spirit and not just the letter of a contract is followed will succeed.

Otis Elevator Company, which had a pre-war operation in China, searched for a solid relationship after China's reopening that would endure through the ups and downs of a transitional period. Otis's contract with a company in Tianjin is like a marriage arrangement. For better or worse, the two partners have agreed to work things out over 30 years. In this spirit, Otis has not even pressed for a firm commitment to an exact schedule for the repatriation of profits.

In contrast, Nike has taken on and abandoned a series of partners in a frustrating search for a Chinese business that can produce shoes more cheaply than the company's Korean and Taiwanese associates but that still meet Nike's quality standards.

Remember that the Chinese will reaffirm a relationship with a Western partner time and time again. The depth of what is possible is often in-

comprehensible to U.S. executives. The manager of a California company, for example, spent nearly two months in central China working out a joint venture with a provincial enterprise. The day after the agreement was signed, the other members of the team left for home and the executive remained. He met one last time with his Chinese counterpart who astounded him by raising again the issues that had been big stumbling blocks during negotiations. Even though he felt isolated, the manager defended the agreement passionately. Only much later did he understand that the contract is not as important as the potential long-range relationship. The Chinese reopened the discussion after contract signing because they considered the two parties now old friends who could bring matters up anytime.

At the heart of Chinese bargaining, a predictable psychological dimension takes the form of getting the other party to exaggerate its capabilities while the Chinese reserve the right to ask for more. Flattery is too crude a description for this process. Instead, the Chinese use the advantage a weaker party has in extracting favors from the strong—all the while maintaining its dignity. The Chinese approach calls for elaborate courtesy, gestured humility, and high sensitivity to perceived insult.

The U.S. executive's desire to enter into negotiations with outgoing, upbeat enthusiasm plays right into the strengths of this style. The Chinese believe that Americans are easily flattered, hence readily manipulated. The result is a narrow range in which the foreign negotiator can maneuver.

The Chinese approach works well with people who can easily be made to feel they are doing the wrong thing. Chinese negotiators will, for example, test U.S. executives by bringing up past mistreatment of China in the hope they will be more obliging. An executive of a large American bank now admits he got off on the wrong foot with the Chinese because he believed he could gain their confidence by vigorously criticizing past U.S. policies toward China. From then on, the Chinese did not allow him to forget that the United States had been in the wrong.

Another psychological advantage the Chinese enjoy comes from the advantage of playing the hosts. Because a visit to China gives them prestige, U.S. businesspeople accept hospitality from the Chinese even though their home-court advantage has proved significant. As guests, the Americans must adjust to Chinese norms and practices and not be rude by insisting on their own. American negotiators are usually confronted with a Chinese team that is larger—often including specialists who are interested only in solving their own engineering problems.

The owner of a New Jersey carpet company that bought the entire production of several Chinese factories became such an indebted guest that he began to pay nearly twice what he should have for his semiannual purchases. He would never have allowed such a thing to happen in India or Iran, but he justifies the higher prices he must charge for these products on the grounds that a market infatuated with anything Chinese will pay for such extravagances. Most important, he hopes the Chinese will reciprocate with lower prices eventually.

"Sure it's a partnership, Elwood, but it's a limited partnership, and you're the one who's limited."

As hosts, the Chinese take advantage of their control over the pace of negotiations. First they set the agenda, then they suggest that the Americans start the discussions. This forces the guests to show their hand—their proposals become the starting point from which all compromises follow. To keep the process going, the Chinese expect the visitor to make the next concession, which the Chinese easily counter by asking for further concessions.

Sino-American diplomatic negotiations have followed this pattern since 1972. Either the secretary of state or the president would travel to China to gain public relations triumphs, and they were always under pressure to make sure the trips were a success. From Kissinger's trips, the Chinese learned they could gain considerable leverage by merely hinting to the press that a visit might "fail."

Secretary of State George Shultz seems to have mastered the Chinese tactic of forcing the other side to show its hand first—then exploiting its fear of failure. In recounting the American delegation's

trip to New Delhi for Indira Gandhi's funeral, Daniel Patrick Moynihan described Shultz's skill: "[He] asked Vice Premier Yao Yilin of the People's Republic of China about his views of the region. The vice premier replied he would be interested in the secretary's views. This exchange was repeated until the appointed time of departure."[1]

Of course, in commercial negotiations such a strategy is inappropriate – especially if the ultimate goal is a business contract. But the executive should remember that Chinese businesspeople will play their cards close to the vest – even while insisting that visitors show their hands. Many U.S. executives report that – as a way of trying to pry out secrets – the Chinese have revealed information on competitors. Japanese trading companies avoid this problem with the Chinese by refusing to bid against each other.

Shadowboxing

Once negotiations begin, the Chinese seem passive. They simply ask questions, probe for information, and conceal any eagerness they may feel. They are wary of showing enthusiasm – an attitude that contrasts sharply with the American salesperson's excitement at the mere prospect of a deal. One U.S. aircraft parts supplier reports he was shocked to realize in retrospect that as the Chinese became more restrained, he became more energized – until he promised more than he could deliver.

During this phase, negotiators have learned to listen carefully because the Chinese often give subtle hints about their requirements for reaching an agreement. A plastics company executive believes that if he had heeded early Chinese signals he would have saved his company nearly a year's delay in setting up the joint venture. He was so absorbed with making points that he missed the hints they gave.

At times, the Chinese seem to become obsessed with a particular detail. It is important to remember that they may not really place great importance on it; they may be stalling. In fact, delaying things may be a necessity, not a tactic. They don't want to admit their difficulty in coordinating decisions, so they take up time with false questions. In the midst of serious negotiations, for example, the Chinese may suddenly suggest that the Americans take a break for some sight-seeing.

Various people's reports attest to the reality of this shadowboxing. Apparent sticking points can disappear once an agreement is reached. One American importer of rare metals first haggled over prices, but reported that a year after the contract was signed the Chinese spontaneously offered new prices that were more favorable than those he had originally sought – because of changes in the exchange rate.

The Chinese use time shrewdly. If they sense that businesspeople are in a hurry to leave China, they may slow down negotiations and turn the deadline to their advantage. When China first opened up, some foreign executives thought they would have to hang their heads in shame if they left China without an agreement. Now many Americans are comfortable going home without a deal rather than settling on Chinese terms.

Ultimately, of course, this reaction serves little commercial purpose. Rather, executives should establish a clear understanding with the Chinese about the amount of time available and, most important, negotiate a fallback arrangement if they cannot reach agreement within the first time period. A West Coast lawyer follows the practice of beginning discussions by telling the Chinese exactly when he will be leaving and how long it will be before he can return.

These timetables can also change unexpectedly as Chinese passivity gives way to apparent impatience. Suddenly they want to reach agreement. They forget issues that were major obstacles and suggest that everything is in order and all further problems can be worked out.

This switch has surprised many U.S. businesspeople because it comes without any hint that a settlement is imminent. The two parties have different concepts of how an agreement is reached. Americans believe it follows a process of give-and-take that culminates when both sides have maximized their position. Chinese negotiators see an agreement more as a pledge from both sides. They believe a bond is sealed from the point when each side works out the benefits it will receive. An agreement binds the parties in a common endeavor wherein each side will make continuing demands on the other.

U.S. executives usually find that the Chinese are quick to talk of friendship and ready on short acquaintance to call them old friends. In the Chinese culture, all friends are "old friends" and what may seem to Americans as mere conviviality is to the Chinese an essential negotiating element. The Chinese can make heavy demands on friends and place few limits on how they use friendships to material advantage.

A subtle but profound difference in the way the two sides view friendships can have a strong effect on business negotiations. The Chinese place great importance on objective considerations and little on feelings. For example, they believe people from the same town, or same school, or the same organization should act as friends even if they don't know each

1 Daniel Patrick Moynihan, "Indira Gandhi and Democracy," *Freedom at Issue*, May-June 1985, p. 18.

other well. Morever, they expect the person who is better off to be always generous. They establish a bond so that they can ask for repeated favors and also so they can suggest that the partner who is not forthcoming is not living up to the spirit of their friendship. Americans see friendships as built on a natural give-and-take.

I am not surprised about the complaints of many U.S. executives that the Chinese fail to reciprocate friendship. American universities making scholarly exchanges with the Chinese are often irritated because they seem to provide a lot without getting much in return – scholarly aid, if you will, rather than exchange. The Chinese, however, would be offended if they heard this; they acknowledge the Americans' prestige simply by entering into the relationship. Americans doubt the cash value of prestige whereas the Chinese see it as a goal.

What the Chinese neglect in terms of reciprocity, however, they more than match in loyalty. They not only keep their commitments but they also assume that any positive relationship can be permanent. A good example of this is the number of Chinese who have tried to reestablish pre-1949 ties with U.S. companies and individuals – as though nothing had happened in the intervening years.

In business dealings, Chinese feelings about reciprocity surface most sharply in discussions of technology transfer. The Chinese want to gain access to advanced technologies – they believe that although their country missed out on the first two industrial revolutions, it can get in on the start of the third, the information revolution. But they don't appreciate proprietary rights. They believe that knowledge should belong to everyone; those who have technical knowledge should share it. They don't appreciate how much it costs to produce technologies, a fact that is evident in the way they wastefully try to reverse-engineer products – buying a model, then trying to replicate it through inefficient, cottage-industry methods.

Pursuing goals

The Chinese assume – wrongly – that they can solve most of their modernization problems with more advanced science and technology. A frequent stumbling block in negotiations has been specification of the technology a foreign partner would bring to the joint venture. The problem is more serious than one might assume because China's difficulties have more to do with poor business management than with lack of technology.

In any contract, management arrangements are hard to pin down. Because the Chinese generally provide almost all the employees, U.S. businesspeople must make certain that the deal contains satisfactory management arrangements. If the Chinese have done poorly in an industry without a foreign partner, this pattern may continue in a partnership, even with advanced technologies. Agreements should include arrangements for training management, not just teaching technical or engineering skills.

Negotiations over the costs of such training can be sticky. In some of the hotel deals, the Chinese not only discounted the costs of training but were also quick to suggest that Americans absorb training costs, including high overhead expenses like medical care and housing.

The Chinese also want to do business with the "best" foreign companies. They place a high value on quality and status, and they often suspect they are not getting the best – a concern that aggravates an already strong anxiety about getting cheated. Although the latest technologies may not always be the most appropriate, the Chinese cannot suppress their suspicion that foreign companies mistreat them when they try to sell them equipment that the Chinese sense is not the most advanced.

This fear stems from memories of past ill-treatment by foreigners and from a rural tradition holding that all transactions produce a winner and a loser. The fear is exacerbated by the anxieties of Chinese negotiators that their superiors may accuse them of making bad deals. Plant managers have far greater freedom than in the past, but their careers are still vulnerable to changes in the political currents.

Because of such Chinese concerns, little-known foreign companies have trouble in selling themselves. If they play up their competitive advantages, the Chinese may suspect them of boasting; if they are too modest, the Chinese will dismiss them as not being the best. In American negotiations, frankness is a virtue; it is considered wise to admit failings. The Chinese believe that if you admit to one weakness, you are probably covering up even greater ones.

The American goal is a binding agreement secured by a stable and enduring legal system, a contract with all the power and mystique we associate with the law. The Chinese see stability not in the power of the law but in the strength of human relationships. A contract establishes what is essentially a personal relationship. Although the Chinese are now developing a more institutionalized legal system, their culture still reflects a philosophy that governance is more by people than by laws.

Even the Chinese who are in charge of a state company may have very limited and uncertain authority and may want to settle for a tacit rather than a written understanding. Even with considerable decentralization, managers remain hemmed in by the system and often have little sense of the boundaries of their authority.

This problem of limited authority becomes particularly acute when Americans expect the kind of commitments they get in other countries. China's inadequate infrastructure means that Chinese negotiators cannot make firm guarantees on matters that depend on, say, the system of transportation or supplies of energy.

How to handle them

Although I do not intend to outline a counterstrategy for executives going into a negotiation with the Chinese, I would like to summarize my thoughts as a list of do's and don'ts in dealing with them:

1 Always be yourself. While you should be sensitive to Chinese cultural practices, you must never believe you can master their ways.

2 Be patient, both in the actual negotiations and in designing an overall strategy. Impatience not only leaves you vulnerable to manipulation but also produces agreements that can result in misunderstandings later and compromise your access to China.

3 Recognize that you cannot even guess at the shape of China's future development. Her success could take various forms, each good for China but each with different implications for different American businesses.

4 Accept that you cannot define or govern your Chinese company with any formal contract. Learn to shape it through the human relationships established through the negotiations and actual conduct of the business.

5 Be prepared for misunderstandings and avoid recriminations over them. Although the Chinese often seem uninhibited in exploiting American mistakes, they are just as likely to be thin-skinned and quick to take offense. China's recent foreign relations are full of examples of Beijing having bitter fallings-out with former allies.

6 Accept the Chinese offer of friendship in the spirit in which it is extended. The relationship can have a practical and materialistic as well as a sentimental dimension. Understand that even though the Chinese may not seem as sensitive to considerations of reciprocity as Westerners or the Japanese, they place much value on loyalty and they will uphold their side of any bargain even as they try to get further concessions.

Ming dynasty business contract

Wherever a money economy prevails, commercial transactions such as buying and selling, borrowing money, and renting houses are important parts of people's daily lives. Because most economic relations potentially involve conflicts of interest, they need to be regulated by well-understood traditions, written agreements, or both. By the T'ang dynasty [618-907 A.D.], contracts seem to have been in wide use in China, and thereafter even illiterate peasants realized the importance of having a piece of paper to prove the original terms of an agreement. Private financial agreements could be drawn up by any two individuals, usually with the aid of a mediator or a witness. Experts in legal matters were not normally consulted, but to ensure that most foreseeable problems had been dealt with, people could consult sample contracts.

Here is a blank contract taken from a late Ming [dynasty 1368-1644 A.D.] reference book.... Most such contracts and bills of sale state that the transaction was legal and had not been coerced. They also carefully specify who is responsible if anything goes wrong. Very often the weaker party (the man seeking to borrow money, be hired, sell his child, and so on) clearly accepts the brunt of the responsibility should anything unexpected happen. Such economic relations surely must have also shaped social relations.

Sample contract for forming a business partnership

The undersigned, _____ and _____, having observed that partnerships bring profit and enterprise brings success, have agreed to pool their capital for profit. As witnessed by a mediator, _____, they have each contributed _____ as capital, and will cooperate sincerely in their business venture. The profit yielded will be divided between them each year to provide for their families. The capital will remain untouched to serve as the fountainhead of the business. Each individual will take care of his own personal expenses and not draw from the capital, nor should business and private expenditures be in any way mixed in bookkeeping. The two parties have taken an oath by drinking blood-wine to work together in harmony and share both profits and losses. They will not disagree, feud, or seek separate profits. The party that breaks this contract will be persecuted by gods and men alike.

This contract is drawn up in two copies as evidence of the agreement.

From
Chinese Civilization and Society: A Sourcebook
ed. Patricia Buckley Ebrey

The China trade: making the deal work

Steven R. Hendryx

The word is out among international managers. Investing in a joint venture in the People's Republic of China is tantamount to courting disaster. Articles in publications from the *New York Times* to Hong Kong's *South China Morning Post* recount tales of day-to-day management problems that leave MNC executives sobered, discouraged, and, in many cases, appalled.

When I was director of China Operations for Otis Elevator Company and setting up Otis's joint venture in Tianjin, I lived in a hotel, where I often heard conversations lasting long into the night with a litany of familiar complaints:

"The real problems don't come in negotiating the deal—the real problems start after you sign the contract."

"Coping with poor infrastructure is easy—my problem is with employees who keep doing things that make no sense whatsoever."

"The Chinese wanted our technology but won't listen to our management advice. They wanted guns but not blue jeans, hardware but not software."

"I've never seen a company like this. The production department won't talk to engineering. Personnel won't talk to finance. And nobody's talking to marketing."

Such managerial gloom and doom should be looked at realistically. Just as multinational managers, according to Lucian W. Pye, will greet any business opportunity with overenthusiasm, so they will turn around and criticize that opportunity with vehemence if it doesn't happen to work out right away. My own belief is that foreign executives have been too quick to jump off the Chinese bandwagon.

After all, some problems are simply the result of bad luck. Many joint ventures are arranged marriages—MNCs got hitched to a Chinese partner under the watchful eye of a government matchmaker—and some of them have just been bad matches. The foreign executives didn't know how to judge their partner's capabilities or potential: getting stuck with a Chinese lemon wasn't hard.

Some problems arose because multinationals invested too little strategic thinking or too little money—or both. Under the misguided belief that the problems were all technical and that no firm financial or strategic commitment was necessary in such an underdeveloped country, they offered only technology and a token management body or two. The much publicized difficulties of the American Motors joint venture, for example, stem as much from inadequate financial planning and unrealistic capitalization as they do from any problem inherent in doing business in China.

> *"The real problems start after you sign the contract."*

Of course, bad luck and the foreign investor's incompetence don't explain all the problems. The country *is* less developed; its infrastructure, poor; the impact of state economic planning, still strong on the system; the legacy of the Cultural Revolution on a generation that should have provided today's middle managers, devastating. Such problems have few short-term solutions; only time and economic development will solve them. Just because such difficulties exist, however, doesn't mean that foreign executives are impotent and cannot cope with the legacies of history and central planning. They can't simply sit back, resign themselves to the status of advisers to a Chinese state enterprise, and spend their nights in Beijing bars swapping war stories.

[Continued on page 51]

As the director of China Operations for Otis Elevator Company, Mr. Hendryx was responsible for negotiating, organizing, and launching Otis's joint venture in Tianjin. He now provides consulting services to corporations establishing or operating joint ventures in the People's Republic of China.

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Thoughtful executives have begun to work through the problems by first coping with the managerial misconceptions under which both sides have labored. Chinese managers assumed that the joint venture—like its Chinese predecessor—would continue to be driven from the top down by the state planning system and have as its main concerns engineering, manufacturing, and maintaining the same number of employees in the plant. The concepts of financial discipline and market competition were outside their experience.

Meanwhile, foreign executives believed the administration of the joint venture, while challenging, would at least be based on familiar concepts. They didn't realize that Chinese managers have never developed a corporate strategy or coordinated the activities of the various departments—finance, marketing, personnel, and production—necessary to achieve it.

Of course, a Chinese enterprise cannot turn into a Western company but it can turn into a new kind of Chinese organization—one that is freer to make decisions, perform finance and marketing functions, and integrate all functions into a coordinated organization. Some foreign managers have started the process by overcoming the natural resistance to foreigners' inputs, encouraging coordination and cooperation among departments, getting involved in human resource activities, and persuading the company to act more like a capitalist counterpart.

When the partners take time to recognize these problems and work together to overcome them, the result can be a well-run and profitable organization. In less than a year of operation, the Tianjin-Otis's joint venture earnings have more than repaid Otis's initial investment.

Once executives resolve initial differences in attitude, the main stumbling blocks in transforming the venture from a centrally planned factory to a market-driven corporation stem from a lack of coordination and direction. In this article, I will address these. What I say is based both on my own experience in establishing the Otis joint venture and on conversations in the People's Republic with managers of other joint ventures.

When things just don't make sense

Before MNC executives can win their Chinese counterparts over to a new way of doing things, they have to understand the established way of doing things. After five years of exploration, discussion, and negotiation, Tianjin-Otis came into being in 1984. It was, in essence, a merger of modern Otis technology with a well-established Chinese enterprise that had 2,400 employees, four factories, an R&D center, a national field network, and a corporate headquarters. But like most joint ventures, it has taken a great deal of understanding and patient negotiation to make it succeed.

From the very beginning of any Chinese joint venture, foreign managers find they can't execute agreed-to plans because department heads won't coordinate their activities with one another. In one case, for example, to better control inventory and lay the foundation for an MRP-type production planning system, two computer operator trainees and a dozen stockroom clerks checked and input 15,000 inventory items into the computerized system, including about 7,000 purchased components.

At the same time, the finance department took steps to implement a badly needed cost-accounting system by creating a master list of purchased parts with updated standard costs. They used the same Chinese data base software as the computer operators to create the standard cost files. Despite repeated requests from the foreign manager that the two groups coordinate their efforts, neither did so. The finance department's man entered the inventory items but used different part numbers and different names and descriptions along with the standard cost for the 7,000 purchased items. Chaos ensued. For more than three months, people worked side by side and never talked about what they were doing—they were from different departments.

One reason such coordination is difficult is that the different departments in a Chinese company have more allegiance to—and ties with—their counterparts in the planning and government bureaucracy than they have to other departments in their own organization. A Chinese state enterprise is subject to a supervising bureau (department-in-charge) that is roughly analogous to the parent company of a conglomerate. In addition, a series of local functional bureaus oversee each function within a company. That means the company's labor, materials, engineering, production, and finance departments report not only to the general manager of the plant but also to their respective municipal functional bureaus, which supervise all corresponding departments of all the companies in the city. Each local bureau reports to its corresponding ministry in Beijing. The labor department of Tianjin-Otis, for example, is responsible to the Tianjin Labor Bureau, which reports to the labor ministry in Beijing. It's just as if the treasurer of IBM reported through state channels to the secretary of the treasury in Washington.

Such vertical lines of communication are initially stronger than any horizontal patterns a

"We do a little hiring and a little firing, and between you and me, I enjoy the firing more."

joint venture management can institute. In one joint venture, for example, the personnel, finance, engineering, and production departments each worked independently and without talking to each other for months to update standard manufacturing labor times.

A corollary problem occurs when the various functions develop a sense of autonomy; they become fiefdoms. *Shanto juyi*, or mountain peakism, is the Chinese term: "This mountain peak is my territory; the others are not my concern." In one joint venture, the engineering department increased its manpower and budget and built a multimillion-dollar research facility that the company didn't need and then obtained recognition for it as a "research institute" from the state's engineering ministry.

This kind of autonomy among departments produces more and more irrelevant activities. Suppose the party channels of communication stress the need for more scientific management of enterprise costs; each department then rushes off on its own to work on costing. The technical bureau wants to improve quality; the financial bureau, to be rigorous and precise. Without a strong coordinating role from the enterprise's management, they're all just scrambling to rearrange the deck chairs on the Titanic.

One factory had a very expensive, ultra-high-precision measuring device. Its purpose was to calibrate the gauge blocks that in turn calibrate the ordinary micrometers used in production. The instrument's tolerances exceeded both the tolerances required in the product and the tolerances any of the machine tools could hold by several orders of magnitude. It was good. It was scientific. But it was irrelevant.

Year after year, a planning department turned out a 30-page document with all the figures expressed down to about ten significant digits. The figures were precise and the calculations were scientific but projections were off by 30% at the end of the year. The work was irrelevant.

A shop manufactured mounting brackets that were in chronic short supply, and quality inspectors rejected them by the score for minute surface blemishes that had no effect on the function, aesthetics, or acceptability of the part. The inspection standards were tough, precise, scientific, but irrelevant.

Still, the picture is not entirely grim. The strong vertical lines of communication produce a high degree of regional and interbureau rivalry, which often comes as a surprise to executives who see China as a monolith. When contemplating a joint venture, they can turn this rivalry to their advantage. Rather than heading straight for the top Beijing official or ministry, some smart foreign managers approached local companies directly about possible joint ventures and found them more flexible. By approaching the investment at the local level, the foreign company can take the initiative in appraising potential partners and present an idea for a marriage to the government rather than the other way around.

Push for coordination

In tackling the problem of coordination, one joint venture manager lessened the impact of vertical contacts by limiting their number and frequency. He established a policy requiring all visiting representatives of various bureaus to make appointments that fit his schedule, to clear all meetings with him, and to make sure that off-site meetings of Chinese managers and their functional superiors in the state bureaucracy would not interfere with his own management meetings. He steadfastly pointed out how policies suggested by the bureaucracy conflicted with joint venture strategies, and he challenged the bureaucracy's attempts to impose its will. The bureaucratic demands fell off.

To strengthen horizontal contacts and improve coordination, another joint venture moved administrators among departments and established special project task forces that cut across departments. It also set up open offices and a company cafeteria where middle managers could meet informally at lunch.

The problems of noncooperation, fiefdoms, and irrelevant activities reflect weak horizontal communications, which result from the Chinese com-

pany's strong vertical structure. The key to a solution is to articulate company goals common to all departments in the joint venture, get the departments talking to each other, and integrate their activities to meet those common goals.

When no one will decide anything

When foreign managers complain that they can't get anything done, what they really mean is that they can't figure out who's in charge—who's supposed to make the decisions. This is especially bothersome when it comes to decisions they've always been able to make. In one case, a foreign executive wanted to come up with a long-range product development plan for his venture but found that he simply could not form a task force, get recommendations, and produce a plan, as he could back home. Different departments wanted to devise plans on their own, then gradually reach a consensus with other departments from their respective positions.

Each department drew up its own list of test equipment and submitted its ideas to the other side for review, hoping for a consensus. But months went by, and none was reached. The executive tried to bring in a computer consultant but was told he needed to give the departments a choice; he found two possibilities, but the departments could not agree on who was the best candidate and delayed so long (three months) that both became unavailable and the project was left half-finished.

This slow progress toward consensus among people who consider themselves equals suggests to the executive that no one is really in charge. One decision may require agreement among the heads of several departments within the department-in-charge of the enterprise. If the decision requires higher approval, a consensus among several bureau heads and the head of the department-in-charge may be necessary. In addition, party discipline may require consensus building among government officials in different bureaus.

Most joint venture managers feel this lack of decision-making capability most strongly in their attempts at human resource management. One joint venture manager tried for four months to get someone to staff any of six new projects approved by the joint venture board; his efforts failed, even though the company had more than 1,000 surplus employees. When he tried to put through a plan, he found that various departments within the enterprise objected to it and came up with their own. Even though the projects—including an asset-accounting system, a review of the cost-accounting system, a revision of the bills of material and the order-entry system—were crucial to the smooth running of the operation, the bureaucratic structure was more important. And to complicate things further, several joint ventures have reported that managers won't make decisions because they're too scared. Being unqualified for their positions, they won't lead, follow, or get out of the way.

Many of the difficulties with decision-making authority stem from the way that the joint venture's board is structured. The board is a new entity in the Chinese system, whose role, function, and powers are not well defined in legislation and totally unrefined in practice. Although the board is the highest authority within the joint venture, the joint venture is subject to the laws of China, and those laws, of course, are administered by bureaucrats.

But the major problem is that because the board is new, all sides fall back on old alliances and leave the new system to founder. The Chinese and the MNC supply the chairman and vice chairman respectively; each partner is represented on the board in proportion to its share in the venture. Beyond that very clear delineation of power, however, lies a complex web of allegiances and authority. For example, the foreign partner can remove the general manager it appointed at will; thus the parent company strongly influences that person's positions and priorities. The Chinese deputy general manager and middle managers, for their part, are appointed by the joint venture's department-in-charge and respond to influences from that sector. Decisions will be difficult until their allegiance flows toward the joint venture and not toward outside forces.

Even if the joint venture board makes a decision, the bureaucracy often countermands it and the foreign partner may never know what's going on, much less why. One joint venture developed a comprehensive compensation system that increased top salaries threefold, introduced merit bonuses, and included a profit-sharing bonus that would have been paid directly to the workers, not into the joint venture's omnibus fund for general welfare. Two months after the plan was instituted, however, the joint venture's department-in-charge told the personnel manager that the wages were too high and that he must cut the bonuses. Management declined, and heated discussions ensued. While the municipal labor bureau sided with the joint venture in principle, it did not or could not force a solution. The case went to the labor ministry in Beijing, which, while agreeing with the joint venture's policy, did not overrule the bureaucracy.

The parties finally reached a compromise under which workers would no longer receive a bonus and the problem would be studied further. Although the operation has been going full blast for more

than a year, reform: of the old egalitarian compensation system hasn't happened.

Establish your decision-making rights

In a joint venture in China, the Chinese party supplies virtually all of the labor force, most of the middle management, and the deputy general manager. Apart from the technology, the MNC provides the general manager and a few experts (who are usually advisers rather than line managers). But many foreign executives have been timid in wielding the authority a general manager should have. To succeed, they must learn to assert and use that authority when decision making is paralyzed by the norm of consensus decision making.

The solution to this dilemma is not as straightforward as you might think. Some successful joint ventures strengthen the power of their boards and the foreign general manager right from the beginning—in negotiations and in lobbying the local bureaucracy. The final deal solidifies the role of each and lays the groundwork for successful decision making later. What the deal cannot do, of course, is remove entirely the Chinese penchant for consensus. It is an entrenched part of the political process. And many management issues *are* essentially political.

Thinking ahead, however, can minimize problems before they start. One joint venture negotiated to set up a new factory but did not write into the agreement any specifics on an arbitrary staffing level before beginning production. Instead, it selected staff on a strictly as-needed basis, and it now enjoys great flexibility, especially since the Chinese partner has other operations from which it can draw experienced staff.

The joint venture must also assert the sovereignty of the board and limit the role of the bureaucracy. The United States differentiates sharply between the role of the regulatory agency, which is limited by the concepts of jurisdiction and due process and which may be challenged in a judicial proceeding, and the role of the board and management in exercising judgment and discretion over operating issues. In China, because such concepts are less distinct, the bureaucracy is accustomed to playing a supervisory role. Only if the joint venture management lobbies vigorously in the early stages of negotiation can it clarify where the bureaucracy's jurisdiction ends and that of the joint venture begins.

For those companies that have already completed negotiations, more creative solutions are needed to get over the hurdles blocking effective decision making. Otis took over an existing operation and work force. Because the Chinese partner had to provide employment for surplus employees, it formed cooperative employee-owned mini-enterprises, which were staffed by surplus employees. These cooperatives served as captive vendors of food, custodial, and nursery services to the organization.

One experienced Chinese official said that even if they have not already done so, MNCs should insist that a foreign executive occupy the post of personnel manager. Unencumbered by a web of long-standing relationships, foreign personnel managers are free to fire or shelve incompetent or unqualified supervisors.

But the main route to effective decision making must come from foreign managers winning greater autonomy for the board and, failing that, asserting themselves before the bureaucracy. Decision making is their responsibility. So is effective use of manpower and the integration of goals. If the joint venture is to enjoy decision-making autonomy, flexibility in its use of manpower, the institution of an effective incentive program, and the integration of goals, it is up to the foreign executives to start the process. Foreign managers often complain, for example, that they can't seem to motivate their workers. Have they thought about how much those workers are paid? Through lobbying and negotiation, a smart foreign manager will establish with the relevant bureau his or her right to implement a good incentive compensation program.

The challenge for MNC managers in China is to disentangle the Chinese factory from its web of bureaucratic supervision and transform it into a corporation. They have to create the marketing and finance functions and improve productivity and quality. To do these things, they must overcome the poor coordination and slow decision making endemic to Chinese enterprise.

To find solutions, managers must look to the origins of problems. Effective use of manpower, for example, requires having freedom to set up meaningful incentive systems and to employ people in the right positions. Localizing and streamlining decision making requires limiting bureaucratic claims to authority or rerouting them through the board. Building cooperation and integrating objectives requires strengthening the horizontal communications in the company.

Success in management reform depends on the firm support of an enlightened and cooperative Chinese management, the willingness of the bureaucracy to concede the legitimacy of MNC involvement in reform, and, above all, the vigorous and properly directed efforts of the foreign general manager.