

# DECENTRALIZATION OF CHINA'S FOREIGN TRADE STRUCTURES

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## I. INTRODUCTION

Emerging from a decade of political and economic chaos, the People's Republic of China (PRC) has embarked upon a course of economic modernization. A keystone of the new economic policy is increased independence of provincial and municipal authorities from the central government, particularly in foreign trade matters. Together with political reform, the economic reforms pushed by Deng Xiaoping and his allies are designed to spur productivity by reducing the role of centralized state planning and by relying upon market incentives implemented by local authorities and enterprises.<sup>1</sup>

Foreign trade is a critical element in China's new economic policies. The domestic turmoil of the Cultural Revolution compelled China's leaders to turn their attention and energies inward, further aggravating China's relative isolation from international trade and economic currents. The return of civil order and political stability has enabled China's planners to focus on foreign contacts and industrial and agricultural needs. The expansion of foreign trade, particularly with the United States following the Shanghai Communique,<sup>2</sup> provides the PRC with the opportunity to

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<sup>1</sup> In a major speech to the Fifth National People's Congress (NPC) on September 7, 1980, Premier Hua Guofeng characterized the economic reform program as one which would change centralized management by the state by instituting, among other specific measures, the delegation of powers to local authorities. Hua attacked over-centralization as inhibiting the "initiative of the grass-roots administrative offices, the enterprises and the workers," and obstructing the "flow between different links in production and circulation." MAIN DOCUMENTS OF THE THIRD SESSION OF THE FIFTH NATIONAL PEOPLE'S CONGRESS, 168, 177, 148 (Foreign Language Press, 1980) [hereinafter cited as THIRD SESSION]. The decentralization measures affecting Chinese domestic enterprises are part of the economic reform program but, because of this paper's focus on foreign trade, are not discussed.

<sup>2</sup> The Shanghai Communique was signed in February 1972. Diplomatic relations were established on January 1, 1979. Other important dates in the re-establishment of U.S.-P.R.C. trading relations include the bilateral trade agreement (including the grant of Most-Favored Nation [MFN] status to the PRC, which went into effect February 1, 1980; authorization to the Export-Import Bank to support U.S. exports to the PRC (April 2, 1980); and the signing of agreements covering aviation, textiles, maritime matters and consular affairs (September 17, 1980). See DEPT OF COMMERCE, INT'L TRADE ADMIN., DOING BUSINESS IN CHINA (revised Nov. 1980) [hereinafter cited as DOING BUSINESS IN CHINA].

obtain the equipment, technology, and know-how it requires to implement current policies. The "four modernizations"—agriculture, science and technology, industry, and defense<sup>3</sup>—provide the foundation upon which China intends to join the front ranks of the world's industrialized powers by the year 2000. The technology and equipment necessary to achieve the modernizations must be paid for with hard currency earned in part through sales abroad of Chinese manufactured goods and natural resources.<sup>4</sup>

Throughout its history, China has retained a deep sense of national unity and identity. Although the provinces and great cities exercised considerable political and economic power before and after the Communist victory in 1949, they were never completely independent of, or opposed to, the nation-state. In 1949, triumphant Communist leaders set up a unitary system of government under the leadership of the Party. The role of the provinces and other local units was acknowledged in successive Constitutions,<sup>5</sup> but the pattern of Chinese Communist constitutional development differed fundamentally from that of a federal system, such as that created by the United States Constitution. The Chinese models, including the most recent Constitution in 1978, emphasize the role of state and party organs, at the expense of provincial, municipal, and other local authorities.

Although the current trend toward decentralization—the granting of increased autonomy in economic activity to local authorities and enterprises—is new, it is not unique in China's recent past. Previous efforts were made to decentralize economic planning and management in 1956-58, the early 1960s, and in 1970. The decentralization of the past two years differs, however, in one important respect from previous policies. Earlier decentralization directives were designed to improve China's domestic economic management. Under the present scheme, new trade institutions are being established in a number of municipalities and provinces

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<sup>3</sup> The four modernizations were announced by Zhou Enlai in January 1975.

<sup>4</sup> China's exports consist primarily of crude oil, coal, foodstuffs, handicrafts, simple machine tools, textiles, ores, and bicycles. Imports include equipment and technologies for oil exploration, mining, power generation, and aviation, agricultural inputs (fertilizers, pesticides, etc.), petrochemicals, consumer goods, grain, and other foodstuffs. See DEP'T OF COMMERCE, INT'L TRADE ADMIN., OVERSEAS BUSINESS REPORT No. 80-25, EAST-WEST TRADE UPDATE: A COMMERCIAL FACT SHEET FOR U.S. BUSINESS, 13-15 (Aug. 1980). See also CONGRESS OF THE UNITED STATES, OFFICE OF TECHNOLOGY ASSESSMENT, TECHNOLOGY AND EAST-WEST TRADE 273 (Nov. 1979) [hereinafter cited as TECHNOLOGY AND EAST-WEST TRADE]; and Smith, *China's Reappraisal Hampers U.S. Trade*, N.Y. Times, Oct. 30, 1980, at D 17, col. 1.

<sup>5</sup> CONST. (PRC) 1954, 1975 & 1978.

and "Special Economic Zones" are being developed for the purposes of promoting *foreign* trade and improving *foreign* trade management. The foreign trade aspect of current decentralization does not create any distinction between foreign and domestic planning in terms of their relative importance to Chinese leaders, nor is there any contradiction between domestic and foreign trade in the granting of increased autonomy in trade matters to local units. However, the current policy does focus on China's recognition that its economic growth and prosperity are linked firmly to trade, and that the earlier goal of self-sufficiency, even if desirable, is unattainable. The recent creation of institutions at the local level to deal more efficiently with foreign business interests and investments has been matched by efforts to enact commercial legislation, which will accommodate trade with foreign companies. The joint venture law<sup>6</sup> and corporate<sup>7</sup> and individual income tax laws<sup>8</sup> will be complemented by laws on patents, contracts, corporations, an accounting system for joint ventures, and regulations on foreign exchange.<sup>9</sup>

Decentralization is, of course, an ongoing process. New local institutions continue to appear, assuming novel roles and burdens in promoting and developing China's foreign trade. At this early stage, confusion and uncertainty are evident, and there are reports of problems with economic reform as well as difficulties in

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<sup>6</sup> LAW OF THE PEOPLE'S REPUBLIC OF CHINA ON JOINT VENTURES USING CHINESE AND FOREIGN INVESTMENT (adopted by the Second Session of the Fifth National People's Congress, July 1, 1979, revised Sept. 2, 1980). See Note, *Foreign Investment in the People's Republic of China: Compensation Trade, Joint Ventures, Industrial Property Protection and Dispute Settlements*, 10 GA. J. INT'L & COMP. L. 233 (1980).

<sup>7</sup> CORPORATE INCOME TAX LAW OF THE PEOPLE'S REPUBLIC OF CHINA, (Sept. 2, 1980).

<sup>8</sup> INDIVIDUAL INCOME TAX LAW OF THE PEOPLE'S REPUBLIC OF CHINA (Sept. 2, 1980). See 11 GA. J. INT'L & COMP. L. 373 (1981).

<sup>9</sup> Interview with Zhou Xuancheng, Vice-Chairman of the Foreign Investment Control Commission (FICC), in Beijing (Nov. 18, 1980) [hereinafter cited as Zhou interview]. Regulations on joint ventures using Chinese and foreign investment, labor management, and regulations on the special economic zones in Guangdong Province have also been promulgated. REGULATIONS ON SPECIAL ECONOMIC ZONES IN GUANGDONG PROVINCE, Approved by 15th Sess. of the Standing Comm. of the Fifth Nat'l People's Congress on Aug. 26, 1980 (published in 1980 CHINA'S FOREIGN TRADE, Supp. to No. 6) (hereinafter cited as 1980 REGULATIONS ON SPECIAL ECONOMIC ZONES). Despite the number and variety of books and articles on law in China, there are few experts in Communist Chinese law, either in China or the United States, due to the scarcity of law on which to be expert. Hsia, *Sources of Law in the People's Republic of China: Recent Developments*, 14 INT'L LAW. 25 (1980). For general background on Chinese law, see Cohen, *China's Legal System*, in TRADE WITH CHINA 126 (P. Boardman ed. 1974); Edwards, *The Legal Framework of Chinese Trade*, in LEGAL ASPECTS OF DOING BUSINESS WITH CHINA 63 (H. Holtzmann, ed. 1976); and Lubman, *On Understanding Chinese Law and Legal Institutions*, 62 A.B.A.J. 597 (1976).

achieving decentralization.<sup>10</sup> There are also indications that the established trade bureaucracy at the national level, the Ministry of Foreign Trade in particular, is opposed to the devolution of economic decisionmaking from the central institutions to local units.<sup>11</sup> So far, however, the problems appear to have affected only the pace of decentralization, not its substance.

This article constitutes a preliminary assessment of the course and progress of decentralization and focuses on the new trade institutions that have arisen in the three municipalities of Beijing, Shanghai, and Tianjin,<sup>12</sup> and the provinces of Fujian and Guangdong. Also discussed are the new Special Economic Zones (SEZs) being set up in Fujian and Guangdong. By way of background, a brief examination is made of earlier decentralization policies, and of the constitutional position of provinces and other subnational administrative units. The creation, functions, and progress of the new trade institutions are also considered. A discussion of various problems encountered by the localities, the central government, and foreign businesses follows. Finally, preliminary conclusions are drawn on the basis of present knowledge about the institutions, and judgments are made regarding the prospects for continued decentralization. However, at this point, it is not possible to reach definitive conclusions about the future of local trade autonomy; or to assert with finality how successfully local entities have performed or will perform in the future. The Chinese willingly confess to inexperience in international trade matters. Accordingly, the new trade entities and new trading techniques may require refinement to meet the needs of the Chinese and their foreign business partners. Trial and error appears inevitable during this course of foreign trade development.

## II. EARLIER POLICIES OF DECENTRALIZATION

Fresh from their triumph over the Kuomintang, the Chinese Communist authorities adopted a Soviet model of economic management and planning, which emphasized a high degree of

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<sup>10</sup> An editorial in the *People's Daily* on December 2, 1980 indicated problems with the progress of "readjustment," which is aimed at correcting sectoral imbalances in the economy, and called for more central control and planning. FOREIGN BROADCAST INFORMATION SERVICE-PEOPLE'S REPUBLIC OF CHINA L-19, L-20 (daily rep., Dec. 2, 1980).

<sup>11</sup> *Id.*

<sup>12</sup> The "San da Shi" is another name for these three great cities of China.

central planning and control.<sup>13</sup> The first Five Year Plan (1953-1957)<sup>14</sup> was characterized by the development of vertically-organized industrial ministries and centralized control over natural resources, industrial plans, and distribution networks.<sup>15</sup> One of the primary goals of the Communists was to establish the PRC as a major industrial and military power. Other goals included realignment of the geographic distribution of industry by shifting economic power from the prosperous northeast and coastal regions to less developed areas, and the creation of a more equitable system of government services.<sup>16</sup>

Production goals were set by the central government by each industrial ministry and directed to specific enterprises under direct ministerial management.<sup>17</sup> The role of provincial authorities was limited to fulfilling a similar planning process for those enterprises under local, rather than central, ministerial control. As a result, local authorities controlled only one-fourth of all state-managed industries.<sup>18</sup> Centralized planning and decisionmaking achieved some of the goals. A more equitable distribution system of goods and services was achieved, the rate of capital formation and direct investment increased,<sup>19</sup> and the nation was able to concentrate its resources to ensure priority of construction.<sup>20</sup> However, economic efficiency was not achieved. By 1956, local dissatisfaction with the Soviet model appeared. Complaints were made that the "excessive, over-detailed and rigid control by the central departments fettered the enthusiasm of the localities and the enterprises."<sup>21</sup> In 1958, decentralization directives announced

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<sup>13</sup> Lardy, *Economic Planning in the People's Republic of China: Central-Provincial Fiscal Relations* (1975), reprinted in JOINT ECON. COMM., 94TH CONG., 1ST SESS., CHINA: A REASSESSMENT OF THE ECONOMY 94 (hereinafter cited as JOINT ECON. COMM.); see also Lardy, *Centralization and Decentralization in China's Fiscal Management*, 61 CHINA Q. 25 (March 1975); and Luosun, *Changes in China's Economic Management*, 5 BEIJING REV. 21, 22 (1980).

<sup>14</sup> Luosun, *supra* note 13, at 21. Economic plans since 1949 have been: First Five Year Plan (1953-1957); Second Five Year Plan (1958-1962); the Three Year Readjustment Period (1963-1965); Third Five Year Plan (1966-1970); Fourth Five Year Plan (1971-1975); and the Fifth Five Year Plan (1976-1981), which was incorporated into the ten year draft economic program (1976-1985). See Tian, *One Step Back, Two Steps Forward*, 29 BEIJING REV. 15, 18 (1980).

<sup>15</sup> JOINT PUBLICATIONS RESEARCH SERVICE-CHINA REPORT, ECONOMIC AFFAIRS No. 54, at 10-11 (Apr. 8, 1980) (Foreign Broadcast Information Service).

<sup>16</sup> JOINT ECON. COMM., *supra* note 13, at 95.

<sup>17</sup> *Id.* at 97.

<sup>18</sup> *Id.* at 98.

<sup>19</sup> *Id.* See Luosun, *supra* note 13, at 22.

<sup>20</sup> JOINT PUBLICATIONS RESEARCH SERVICE-CHINA REPORT, ECONOMIC AFFAIRS No. 54, at 11 (Apr. 8, 1980).

<sup>21</sup> *Id.*

the transfer of administrative authority of eighty-seven percent of the enterprises formerly under the central authorities to the provinces, municipalities, and autonomous regions.<sup>22</sup> Enhanced authority in the areas of taxation, price controls, economic planning, and financial management was delegated to local units.<sup>23</sup> However, by June 1959, it became clear that the experiment was a failure. Imbalances in the national economy resulted from over-ambitious targets and over-emphasis on development of the iron and steel industries.<sup>24</sup> Control of the most important enterprises were returned to the central ministries.

The shift from centralized management to decentralized and back again between 1958-1960 demonstrates China's search for a balance between two policies. At one extreme, it is argued that economic efficiency is realized by decentralizing and allowing sub-national units to participate in economic planning and decision-making. At the other extreme is a centralized model, which allows distribution of natural resources and government services by virtue of an overall state plan, with subordinate units conforming to directives issued from the central bureaucracy.<sup>25</sup>

A second attempt to decentralize occurred in 1964, when measures were taken to delegate the disposition of investments in construction in nineteen non-industrial branches (such as banking and communications) to local authorities. Under this plan, localities had the power to allocate funds and materials. However, compared to the decentralization steps taken in 1958-1959, the changes were insignificant.<sup>26</sup> In 1970, a third attempt was made when management of approximately 2,000 civilian industrial enterprises was transferred from the central authorities to local governments. Management powers included control over materials, capital construction, and finances.<sup>27</sup> However, none of the three efforts had a significant impact on the ability of the central government to control the distribution of economic resources. Provincial authorities and the enterprises they operated never had the power to act unilaterally, but were limited to operating through state directives, and within the overall state plan.<sup>28</sup>

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<sup>22</sup> Luosun, *supra* note 13, at 22.

<sup>23</sup> JOINT ECON. COMM., *supra* note 13, at 100.

<sup>24</sup> Luosun, *supra* note 13, at 22.

<sup>25</sup> For a general discussion, see N. LARDY, *ECONOMIC GROWTH AND DISTRIBUTION IN CHINA* (1978).

<sup>26</sup> JOINT ECON. COMM., *supra* note 13, at 11.

<sup>27</sup> Luosun, *supra* note 13, at 22.

<sup>28</sup> *Id.*

### III. CONSTITUTIONAL STRUCTURE OF THE PRC

The present Constitution, adopted by the National People's Congress in March 1978, defines the People's Republic as a "socialist state of the dictatorship of the proletariat."<sup>29</sup> Power resides in "the people" and is exercised through the National People's Congress (NPC) at the national level and local people's congresses at "various levels."<sup>30</sup> However, leadership is defined in different terms than in the 1975 Constitution. The 1978 version specifies that the people's congresses are to parallel more closely the party hierarchy, which is described as the "core of the leadership of the whole Chinese people."<sup>31</sup> No question exists as to whether the PRC constitutes a federal system. Article 4 describes the PRC as a "unitary multinational state." Article 33 sets out the administrative divisions of the state. At the first level are provinces, followed by autonomous regions and municipalities directly under the central government.<sup>32</sup> Provinces and autonomous regions are divided into autonomous prefectures, cities and counties, and autonomous counties. Municipalities, directly under the central government, and other large cities, are divided into districts and counties.

Within the National Autonomous Areas, the "organs of self-government" (*i.e.* the people's congresses and revolutionary committees) may "make regulations in the exercise of autonomy" and also "specific regulations," which, however, must be submitted to the Standing Committee of the National People's Congress (NPC).<sup>33</sup> For all other local subunits, the role of the local people's congresses are described in article 36:

[To] ensure the observance and enforcement of the Constitution, laws and decrees; ensure the implementation of the state plan; make plans for local economic and cultural development and for public utilities; examine and approve local economic plans, budgets and final accounts; protect public property; maintain public order; safeguard the rights of citizens and the equal rights of minority nationalities and promote the development of socialist revolution and socialist construction.<sup>34</sup>

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<sup>29</sup> CONST. (PRC) art. 1.

<sup>30</sup> *Id.* art. 3.

<sup>31</sup> *Id.* art. 2.

<sup>32</sup> Beijing, Shanghai, and Tianjin are municipalities under direct control of the central government and are administered as provinces.

<sup>33</sup> CONST. (PRC) art. 39.

<sup>34</sup> *Id.* art. 36.

In addition, the local people's congresses are empowered to "adopt and issue decisions within the limits of their authority as prescribed by law."<sup>35</sup> There is no further delineation of the types of "decisions" the localities may make, nor of the limits imposed on their "authority" as prescribed.

It is clear that local units of the PRC are strictly subordinate in constitutional terms to the central government. Unlike the United States Constitution, which decrees that "powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people,"<sup>36</sup> China's constitutional framework is centered on the national government, with the provinces and other local units possessing no independent political authority other than those powers defined and circumscribed by the central government.

#### IV. CHINA'S FOREIGN TRADE STRUCTURE AT THE NATIONAL LEVEL

At the top of the economic policy and planning ladder are two "supraministerial commissions": the State Planning Commission and the State Economic Commission.<sup>37</sup> The State Planning Commission is responsible for promulgating the national economic plan. The State Economic Commission determines how the plan will be implemented. Both Commissions play crucial roles in foreign trade at the planning stage. However, neither deals directly with foreign companies, nor do they actually administer the work of the trade ministries or of national foreign trade corporations.<sup>38</sup> Subordinate to the Commissions are industrial corporations, such as the China Petroleum Corporation, which are responsible for planning and production in their respective spheres in domestic trade. The corporations act as consultants to the ministries to which they are attached, and to the national foreign trade corporations.

Foreign trade corporations (FTCs), created under the Ministry of Foreign Trade at the national level,<sup>39</sup> have been the chief organs

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<sup>35</sup> *Id.*

<sup>36</sup> U.S. CONST. amend. X.

<sup>37</sup> For a detailed description of China's domestic and foreign trade structure, see DOING BUSINESS IN CHINA, *supra* note 2, at 8.

<sup>38</sup> *Id.* The other major commissions include the Energy Commission, Capital Construction, as well as the IECC/FICC.

<sup>39</sup> *Id.* at 5-8, 36 app. 1 (contains a detailed listing of the national FTCs under the Ministry of Foreign Trade).



for the conduct of foreign trade. Until the advent of the new trade organs in the three municipalities and two provinces, the national FTCs were the organizations responsible for dealing with foreign businessmen. The FTCs negotiate the sale and purchase of goods and materials on the basis of available supplies and on the requirements of domestic enterprises. The FTCs have authority to execute contracts with foreign firms.<sup>40</sup> The industrial ministries, such as the Ministry of Coal Industry, and their subordinate corporations also conduct "foreign trade" by soliciting proposals and information concerning purchases from foreign entities. Various ministries, for example the Ministry of Metallurgical Industries, have established import and export corporations to handle foreign trade and investment activities.<sup>41</sup>

Four central agencies, three of which were created recently, have played an important role in the decentralization process: the Ministry of Foreign Trade (MFT), the Foreign Investment Control Commission (FICC), the Import-Export Control Commission (IECC), and the China International Trust and Investment Commission (CITIC). The Ministry of Foreign Trade, the parent organ for most of the FTCs, traditionally has been the predominant central agency in foreign trade. Not surprisingly, it is the entity most affected by decentralization and the transfer of authority to subordinate trade units. Recent indications are that the MFT has not acquiesced in the transfer of authority. The FICC, IECC, and CITIC are newer, and although they perform functions at the top of the trade decisionmaking level, they must also work directly or indirectly with the new trade entities set up at the local level.

The FICC and IECC were established in 1979 following publication of the joint venture law. Both utilize the same staff and vice premier (Gu Mu) and have similar responsibilities. According to a prominent official of the FICC, its responsibilities are to:

1. examine and approve joint venture projects;
2. research and formulate laws, decrees, and regulations;
3. organize, consider, and conclude foreign economic cooperation agreements; and
4. investigate and research the general state of international economic development and trade.<sup>42</sup>

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<sup>40</sup> The relationship between the central FTCs and local FTCs is considered in Part V *infra*.

<sup>41</sup> DOING BUSINESS IN CHINA, *supra* note 2, at 4.

<sup>42</sup> Address by L. Chu, *China's Present Policy Toward Foreign Investment and Joint Ventures Using Chinese and Foreign Investments*, Washington Foreign Law Society (Jan. 21, 1981).

Of these responsibilities, the FICC's chief task is to coordinate and approve business arrangements between Chinese corporations and foreign firms.<sup>43</sup> The IECC is the parent body of the import-export commissions operating in the provinces and municipalities.<sup>44</sup> The FICC has authority to approve or disapprove joint ventures and foreign investments.<sup>45</sup> With the exception of two provinces, Guangdong and Fujian, and the three municipalities of Beijing, Shanghai and Tianjin, cities and local government units can approve joint ventures that cost less than three million dollars. The selected cities and provinces have authority to approve projects with an investment value of up to five million dollars. All approvals above this amount must be authorized by the FICC.<sup>46</sup> All subnational units considering joint ventures must use the same guidelines for approval as the FICC, regardless of the size or value of the venture.<sup>47</sup> In addition, all local units are required to report to the FICC on any joint ventures approved.<sup>48</sup>

Under the Regulations on the Registration of Joint Ventures Using Chinese and Foreign Investment,<sup>49</sup> joint ventures, following approval by the FICC, must register with the General Administration for Industry and Commerce, which then authorizes its administrative sub-branches in the provinces and municipalities to register the joint ventures. The local administrative branches are empowered to "supervise and inspect" joint ventures in the areas they govern.

Under the direction of the State Council, CITIC was inaugurated in October 1979. CITIC operates in a representative

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<sup>43</sup> Zhou interview, *supra* note 9. See also Comment, *The PRC's Investment Control and Import-Export Commissions*, CHINA BUS. REV. 12 (Mar.-Apr. 1980) (hereinafter cited as *Investment Control*). The FICC/IECC has eight bureaus: overall planning, technology acquisition, imports and exports, foreign investments, legislative, research and investigation, general administrative, and advisors office.

<sup>44</sup> *Investment Control*, *supra* note 43, at 12. The IECC and FICC are both under the leadership of Gu Mu.

<sup>45</sup> Zhou interview, *supra* note 9.

<sup>46</sup> The approval criteria for joint ventures have not yet been published. However, from interviews with Chinese officials, it can be established that there are five standards used by the FIC in considering proposed joint ventures: the capacity of the company to do the job; available infrastructure; debts involved; availability of foreign currency to complete the project; and adequate natural resources.

<sup>47</sup> Zhou interview, *supra* note 9.

<sup>48</sup> *Id.*

<sup>49</sup> The regulation was approved by the State Council on 26 July 1980.

capacity for the ministries and departments. Its functions are to establish contacts with potential foreign investors in order to raise funds and acquire advanced technology and equipment; to put foreign investors in touch with "interested counterparts in China for the purpose of cooperation;" and to invest monies entrusted to it on behalf of foreign investors and "Overseas Chinese."<sup>50</sup> CITIC does not have as close a relationship with local trade authorities as the FICC. It apparently serves chiefly as a model for local investment commissions, and maintains only informal relations with them.<sup>51</sup> At the national level, its activities consist primarily of "matchmaking" foreign companies and Chinese corporations, and acting as an investment broker on behalf of foreign investors.<sup>52</sup>

## V. DECENTRALIZATION

The decision to decentralize the foreign trade system was made early in 1979,<sup>53</sup> after it had become apparent that the ambitious goals of the Ten Year Plan (1976-1985) were unattainable due to low productivity, shortages of hard currency, and sectoral imbalances.<sup>54</sup> Indeed, serious abuses were discovered in the "overly concentrated management system."<sup>55</sup> For example, production was out of line with demand as a result of the previous rejection of the role of the market and "repudiation of the regulatory function of the marketplace."<sup>56</sup> Finally, blame was placed upon the "iron rice bowl" mentality—which guaranteed salaries regardless of production—for sapping motivation to meet or surpass production goals, or to increase investment.<sup>57</sup> Especially important among the sectoral imbalances was an overextension of capital

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<sup>50</sup> Address by Chairman Rong Yi-Ren, Bureau of Foreign Experts Administration (May 12, 1980), *reprinted in* INVESTMENT IN CHINA, CHAIRMAN RONG'S COMMENT ON THE WORK OF CITIC (n.d.). "Overseas Chinese" describes ethnic Chinese living outside of China and Chinese from Hong Kong and Macao.

<sup>51</sup> Interview with Lee Wen-jie, a director of China International Trust and Investment Commission (CITIC), in Beijing (Nov. 19, 1980).

<sup>52</sup> *Id.*

<sup>53</sup> Chiang, *The Restructuring of China's Foreign Trade Apparatus*, ECON. REP. 34 (July 1980).

<sup>54</sup> The Five Year Plan for 1976 to 1980 was plagued by natural disasters, such as the Tangshan earthquake, unfavorable weather, and continuing political unrest, which forced incorporation of the plan into the Ten Year Plan. BUS. AMER. 1 (Aug. 11, 1980).

<sup>55</sup> FOREIGN BROADCAST INFORMATION SERVICE-PEOPLE'S REPUBLIC OF CHINA L 34 (daily rep., Dec. 29, 1980).

<sup>56</sup> *Id.*

<sup>57</sup> *Id.*

construction, at the expense of light industry and agriculture.<sup>58</sup> Accordingly, the central government concluded in late 1978 that a three-year period of economic adjustment was necessary<sup>59</sup> and a policy of "readjustment, consolidation, reform and improvement" was introduced. The new policy thrust agriculture and light industry to the forefront of the economic plan.<sup>60</sup> Of the 120 "major projects" enumerated in the Ten Year draft (1976-1985) economic program, some have been scaled down, some postponed, and some cancelled as a result of the "readjustment" during the last three years.<sup>61</sup>

Foreign trade practices came under fire by Beijing officials as being a "major source of red tape, inefficiency, monopoly and unnecessarily tight control."<sup>62</sup> Supporters of economic reform, led by Deng Xiaoping, criticized the Ministry of Foreign Trade for failing to promote vigorously China's exports in order to relieve economic imbalances.<sup>63</sup> The reformers argued that China's economic growth was dependent upon increasing importation of equipment and advanced technology, and that foreign trade was the means for obtaining the currency required to make these purchases. Decentralization was perceived as one way to increase foreign trade. Devolution of authority to local units in trade matters would allow foreign customers to deal directly with local procedures and enterprises, thereby obtaining high quality products more efficiently and without the bureaucratic red tape and delays of the central bureaucracy. Two particular aspects of decentralization were emphasized: 1) the provinces and municipalities would be allowed to retain approximately one-third of their export earnings, which had previously been retained by MFT; and 2) the MFT would retain control over the export of certain commodities, such as coal, petroleum, and tungsten.<sup>64</sup>

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<sup>58</sup> FOREIGN BROADCAST INFORMATION SERVICE-PEOPLE'S REPUBLIC OF CHINA L 15 (daily rep., Jan. 5, 1981).

<sup>59</sup> Tian, *supra* note 14, at 18.

<sup>60</sup> FOREIGN BROADCAST INFORMATION SERVICE-PEOPLE'S REPUBLIC OF CHINA L20 (daily rep., Dec. 2, 1980); THIRD SESSION, *supra* note 1.

<sup>61</sup> The most dramatic shift in priorities under readjustment came in the postponement of the \$2 billion Baoshan steel complex agreement with Japan. Sterba, *China Steel Project Is Postponed*, N.Y. Times, Feb. 2, 1981, at D1, col. 3.

<sup>62</sup> *New Trade Outlook*, CHINA TRADE REP. 11 (May 1980). [Hereinafter cited as *New Trade Outlook*].

<sup>63</sup> *Id.*

<sup>64</sup> CENTRAL INTELLIGENCE AGENCY, Report (classified). See discussion of the new export licensing system under the MFT in Part V *infra*.

### A. Decentralization in the Municipalities

Under the newest decentralization plan the three great cities of China, Beijing, Shanghai, and Tianjin, have been granted new responsibilities and privileges by the State Council.<sup>65</sup> Along with Fujian and Guangdong, these cities have authority over most local trade and investment decisions up to \$1.9 million, without obtaining the approval of the FICC or other central government organs.<sup>66</sup> Upon approval by the FICC, if required, discussions with foreign companies are handled by local trade authorities.<sup>67</sup>

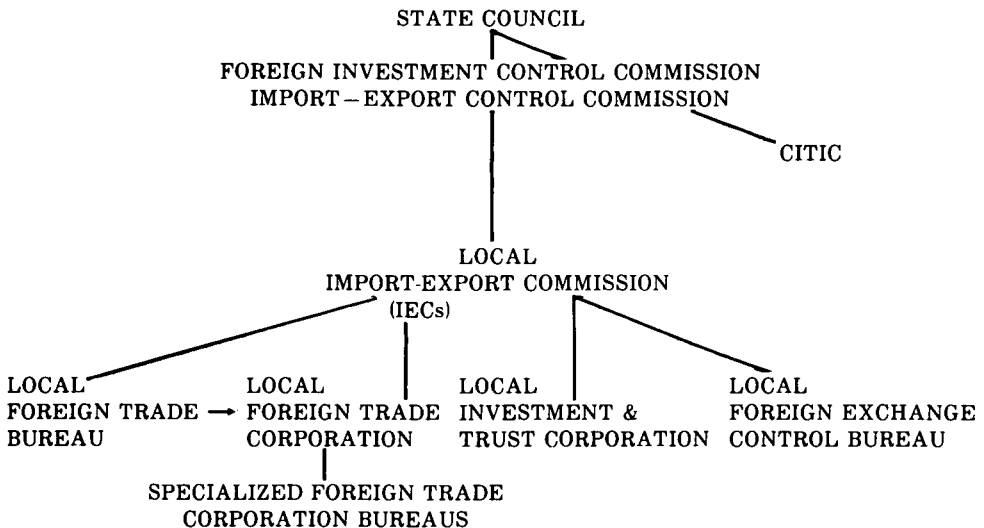
The three cities have created a number of foreign trade institutions to handle imports, exports, joint ventures, compensation trade, and foreign investment capital. The most common trade organization established has been the "local import-export commission" (LIECs).<sup>68</sup> Subordinate to the LIECs are four organizations: foreign trade corporations, foreign trade bureaus, foreign exchange control bureaus, and investment and trust corporations. Subordinate to the local foreign trade corporations are specialized foreign trade corporation bureaus.<sup>69</sup> The LIECs are directly

<sup>65</sup> See Terry, *Doing Business with China's Three Great Cities*, CHINA BUS. REV. 14 (Mar.-Apr. 1980).

<sup>66</sup> Zhou interview, *supra* note 9.

<sup>67</sup> *Id.*

<sup>68</sup> The following chart illustrates the new trade and investment structure of the PRC.



THE ASIAN LETTER LIMITED, THE CHINA LETTER, SPECIAL REPORT 2 (Supp. No. 108, Oct. 1980).

<sup>69</sup> Terry, *supra* note 65, at 14.

responsible to the provincial or municipal governments. LIECs promote and develop trade (including counter trade and licensing) and oversee all imports and exports in each jurisdiction. They supervise the foreign trade corporations and investment corporations, as well as branches of the national FTCs. In addition, the LIECs coordinate all investment proposals received from lower units, and review all financial commitments made by the cities. Their responsibilities include giving final approval for all projects within their domain and forwarding to the FICC joint ventures that require its approval. The LIECs do not, however, negotiate business arrangements or enter into contracts.

The foreign trade corporations oversee the actual business of importing and exporting. Their relationships with branches of the national FTCs are evolving. For the time being, they are controlled both by the MFT and the local authorities, usually through the LIECs.

The local foreign trade bureaus are responsible for administrative matters involving foreign trade. They have been described as the remaining link between the MFT and the developing local trade structures. Through the local trade bureaus, the MFT continues to play a role in the coordination of trade by means of controlling the local branches of the national FTCs. Unlike the LIECs, the local bureaus are engaged actively in trade, and have authority to execute contracts. Examples of their responsibilities include the issuance of export licenses and the negotiation of export processing arrangements with foreign firms. The functions of the local foreign exchange control bureaus are undefined, although it is apparent that they will work with the LIECs in regulating the flow of foreign exchange.

The local investment corporations are linked informally to the CITIC. These corporations are responsible to the provincial or municipal governments, and are supervised directly by the LIECs. Their activities include introducing foreign investors and promoting foreign investments, assisting with compensation trade arrangements, issuing bonds and arranging bank loans, and providing information and consultation services for investors. In addition, local investment corporations assist in organizing joint ventures between municipal corporations and foreign firms.<sup>70</sup>

Beijing's LIEC (BIMPEC) was formed in October 1979. The Beijing Economic Development Corporation (BEDC) was established

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<sup>70</sup> *Id.* at 15. See also THE ASIA LETTER LTD., THE CHINA LETTER 4 (No. 109, Nov. 1980).

to control compensation trade and technical service projects. The Beijing International Trust and Investment Corporation (BITIC) administers loans. Beijing's local foreign trade corporation is comprised of ten sub-branches (each responsible for a type of export, including textiles, light industrial goods, arts and crafts, metals and minerals, and machinery) and subsidiaries that manage transportation and storage and the packaging and advertising of export commodities. The local corporation is empowered to negotiate directly with foreign companies. It also has the authority to supervise local branch agencies of the national FTCs. There have been reports that the Beijing FTC will focus its efforts on the export of textiles, light industrial goods, and handicrafts.<sup>71</sup>

Tianjin set up its foreign trade LIEC (TIMPEX) in March 1980 and the city's trade has expanded rapidly—trade relations with 150 countries have now been established. TIMPEX differs from BIMPEC primarily in that TIMPEX has authority over a broader range of products, including cereals, carpets, oil, textiles, arts and crafts, and foodstuffs.<sup>72</sup> The Tianjin General Foreign Economic and Technical Service Company administers foreign contracts and labor exports. Joint venture projects are controlled by the Tianjin International Trust and Investment Corporation. A foreign trade corporation has also been created.<sup>73</sup>

Shanghai's new foreign trade organizations were initiated in early 1980. Its LIEC was inaugurated in January 1980, and like its Beijing counterpart, oversees the city's foreign trade and subordinate trade units. Its investment organization is the Shanghai International Trust Service Corporation (SITSC). In a variation on the practice in the other two cities, Shanghai's foreign trade corporation, set up in December 1979, and national FTC branches have agreed to split responsibilities for handling foreign trade negotiations; the national FTC branches will handle exports, while the local FTCs will control imports. Like its sister municipalities, Shanghai exports light industrial products, handicrafts, and metals. Shanghai plans to concentrate on producing more machinery, petrochemical products, electronic products, and equipment for small and medium-sized industries.<sup>74</sup>

According to preliminary press accounts, under the new policy

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<sup>71</sup> Chiang, *supra* note 53, at 35. As observed in Part IV *supra*, none of the local investment organizations is linked directly with CITIC.

<sup>72</sup> Terry, *supra* note 65, at 17; see also *New Trade Outlook*, *supra* note 62, at 11.

<sup>73</sup> Terry, *supra* note 65, at 16; see also Chiang, *supra* note 53, at 35.

<sup>74</sup> *Id.* at 35; see also Terry, *supra* note 65, at 16.

of retention of foreign exchange earnings, Beijing will retain forty percent of its earnings and Shanghai thirty percent, provided that their foreign trade targets are met.<sup>75</sup> The foreign currency earnings will be distributed among factories, municipal governments, and the foreign trade bureaus.<sup>76</sup>

### B. *Decentralization in the Provinces—Special Economic Zones*

At the same time the three municipalities were granted expanded trade authority, the State Council gave Guangdong and Fujian Provinces powers to carry out foreign trade and investment, and compensation trade, independent of central control.<sup>77</sup> Both Guangdong and Fujian have established import-export commissions, foreign trade bureaus, and general foreign trade corporations.<sup>78</sup> In May 1979, Fujian established an investment company, the Fujian Provincial Enterprise Company. Like the investment corporations in the municipalities, it can engage in compensatory trade and assist, as well as enter into, joint ventures with foreign companies. Its main source of funds will be from overseas Chinese.<sup>79</sup> In Guangdong, the Guangdong Provincial Trust and Investment Corporation was established to handle joint ventures and financial dealings with overseas interests. It operates under the aegis of the provincial government with assets of \$13 million. The corporation has announced that it will accept fixed interest deposits and issue shares expressed in Chinese currency and Hong Kong and United States dollars.<sup>80</sup> Both Fujian and Guangdong have set up their own FTCs, LIECs, and foreign trade bureaus.

Five Special Economic Zones (SEZs) have been announced for the two provinces, although not all are presently being developed. The zones, located in underdeveloped areas near Hong Kong and the coast of the South China Sea, are concentrated upon light in-

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<sup>75</sup> *Id.* at 20.

<sup>76</sup> *Id.*

<sup>77</sup> A State Council directive in July 1979 authorized the establishment of the zones. See Kamm, *Importing Some of Hong Kong . . . Exporting Some of China*, CHINA BUS. REV. 28 (Mar.-Apr. 1980).

<sup>78</sup> Chiang, *supra* note 53, at 34-35.

<sup>79</sup> Reynolds, *The Joint Venture Law of the People's Republic of China: Preliminary Assessment*, 14 INT'L LAW. 31, 36 (1980).

<sup>80</sup> Rasmussen & Theroux, *Legal Aspects of Trade with China: Policies, Trends and Developments* 31 (Aug. 1980) (unpublished manuscript by attorneys at the law firm of Baker & McKenzie in Washington D.C.). The corporation has assets of \$1.5 million. See also FOREIGN BROADCAST INFORMATION SERVICE-PEOPLE'S REPUBLIC OF CHINA P1 (daily rep., Dec. 5, 1980).



dustries, with intensive overseas Chinese and other foreign investment. The Chinese government designed the zones to be self-contained enclaves, which will earn foreign exchange to pay for necessary plants and equipment, as well as to aid China's overall foreign exchange position. The "spheres" of potential businesses and industries anticipated for the SEZs are broad. Agriculture, animal husbandry, residential and construction industries, high technology research, and technology industries are types of enterprises the government plans to establish.<sup>81</sup>

The four zones in Guangdong Province are:

- 1) Shenzhen—on the Guangdong/Hong Kong border;
- 2) Zhuhai—on the Macao and Guangdong border;
- 3) Shekou—a port on the Pearl River, near the Hong Kong border; and
- 4) Shantou—near the Fujian/Hong Kong border.

Of the four SEZs located in Guangdong, Shenzhen, Zhuhai, and Shantou presently have authority to conclude trade contracts in the nature of compensation trade or joint ventures up to a value of \$2 million without central authority approval. Shekou is in the process of being developed for joint ventures. Shenzhen, the most developed SEZ at this point, has concluded contractual agreements primarily with overseas Chinese. Its infrastructure is being improved to facilitate industrialization, including the construction of highways and a power grid connected with Hong Kong, Shanghai, and Gaungzhou.<sup>82</sup> There have been reports that sixty factories already have begun operations, but it is not clear what the main types of industries or products will be.<sup>83</sup> Shantou has designated an area within the city as an SEZ to develop light industry,<sup>84</sup> embroidery, and foodstuffs.

At the August 1980 Session of the Fifth NPC, regulations were prescribed for three SEZs in Guangdong.<sup>85</sup> The Guangdong Provincial Administration was created to "exercise unified management"<sup>86</sup> of the SEZs. Applications for joint ventures and in-

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<sup>81</sup> JOINT PUBLICATION RESEARCH SERVICE-CHINA REPORT, Economic Affairs No. 100, at 8-9 (Dec. 2, 1980).

<sup>82</sup> Rasmussen & Theroux, *supra* note 80, at 4.

<sup>83</sup> DOING BUSINESS IN CHINA, *supra* note 2, at 19.

<sup>84</sup> Rasmussen & Theroux, *supra* note 80, at 4.

<sup>85</sup> THIRD SESSION, *supra* note 1; 1980 REGULATIONS ON SPECIAL ECONOMIC ZONES, *supra* note 9. The regulations cover Shenzhen, Shantou and Zhuhai. See *Guangdong Rules Cloud More Issues Than They Clarify*, 6 BUS. CHINA 137 (1980).

<sup>86</sup> 1980 REGULATIONS ON SPECIAL ECONOMIC ZONES, *supra* note 9, art. 3.

vestments must be made to it.<sup>87</sup> The regulations provide special tax treatment for investors with a corporate tax rate of fifteen percent.<sup>88</sup> Investors who reinvest in the SEZs for five years and longer can apply for exemption from an income tax on profits.<sup>89</sup>

Fujian, one of the poorest provinces in the PRC, is seeking to take advantage of its proximity to Taiwan and its connections with numerous overseas Chinese to develop foreign trade within its special zones.<sup>90</sup> Xiamen is a national SEZ in Fujian. Huli (a port) and Xinglin are parts of Xiamen and are being developed as special economic zones, primarily at the provincial level. Huli, within the Xiamen municipality, was assigned top priority by the State Council in May 1980.<sup>91</sup> It will be developed prior to Xinglin and Langqi because of its proximity to a major port, (Xiamen) through which one-half of the province's foreign trade passes.<sup>92</sup> Some of the advantages Huli offers foreign businesses are:

- 1) materials imported for processing or construction will be given tax-exempt status;
- 2) exports will be tax exempt;
- 3) a three to five year tax holiday will be granted to enterprises located there;
- 4) Xiamen will supply all utilities free of cost, including roads, water, electricity and telephone service; and
- 5) within the limits of Chinese law, foreign managers will have total control in factories which are 100% owned by foreign investors.<sup>93</sup>

The State Council also decided to postpone development of Langqi because of its poor connection with Fuzhou, and its inadequate power and water supplies.<sup>94</sup> Xinglin may be developed after progress at Huli is under way. Electric utilities, water, rail, and road connections are adequate.<sup>95</sup>

Although it has not been accorded the powers given Fujian and

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<sup>87</sup> *Id.* art. 7.

<sup>88</sup> *Id.* art. 14.

<sup>89</sup> *Id.* art. 16.

<sup>90</sup> FOREIGN BROADCAST INFORMATION SERVICE-PEOPLE'S REPUBLIC OF CHINA 01 (daily rep., Dec. 10, 1980); FOREIGN BROADCAST INFORMATION SERVICE-PEOPLE'S REPUBLIC OF CHINA 02 (daily rep., Nov. 12, 1980).

<sup>91</sup> Terry, *Decentralizing Foreign Trade-Fujian Province*, CHINA BUS. REV. 11 (Sept.-Oct. 1980).

<sup>92</sup> *Id.*

<sup>93</sup> *Id.* at 20.

<sup>94</sup> *Id.*

<sup>95</sup> *Id.*

Guangdong, Sichuan has been moving toward adoption of a new organizational structure for foreign trade and investment. It has established its own local investment and trust corporation, the Sichuan Provincial Changjiang Enterprise Company. Like the other investment corporations, it will be involved in the creation of joint ventures between Chinese and foreign interests.<sup>96</sup>

There are other indications of the decentralization of authority to the provinces and municipalities. In November 1980, it was announced that three of China's banks (the People's Construction Bank of China, the People's Bank of China, and the Agricultural Bank of China) assisted in the establishment of twelve investment corporations in nine provinces, municipalities and autonomous regions.<sup>97</sup> The money provided by the banks to these local investment corporations is targeted to provide loans to projects needed to increase production in line with the overall state plan.<sup>98</sup>

A number of states in the United States and Chinese provinces have shown interest in forming trade ties and establishing "sister state" relationships.<sup>99</sup> By the summer of 1980, twenty-two American states had sent delegations to the People's Republic.<sup>100</sup> Some have initialed exchange agreements, while others have already completed business deals.<sup>101</sup> Hubei and Ohio, alike in their agricultural regions and concentrated industrial centers, have the most extensive contacts. Firms in Ohio have signed \$2 million worth of contracts to supply chemicals, hardware, and welding equipment.<sup>102</sup> In addition, Maryland signed a sister state agreement with Anhui Province.<sup>103</sup>

## VI. PROBLEMS AND PROGRESS OF DECENTRALIZATION

Reports of the progress of decentralization in the first two years have been mixed. Initially, there was considerable confusion about roles to be played and authorities to be exercised. Not surprisingly, relations between the central and provincial foreign trade authorities were not always smooth. Furthermore, accord-

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<sup>96</sup> THE ASIA LETTER LIMITED, THE CHINA LETTER 4 (No. 109, Nov. 1980).

<sup>97</sup> FOREIGN BROADCAST INFORMATION SERVICE-PEOPLE'S REPUBLIC OF CHINA L33 (daily rep., Nov. 26, 1980).

<sup>98</sup> *Id.*

<sup>99</sup> The movement was initiated by President Carter at a 1978 National Governors Association meeting.

<sup>100</sup> Goldsmith, *Sister State Relations*, CHINA BUS. REV. 44 (July-Aug. 1980).

<sup>101</sup> *Id.*

<sup>102</sup> *Id.*

<sup>103</sup> *Id.*

ing to press accounts, the Ministry of Foreign Trade has shown resistance to the movement.<sup>104</sup> In the summer of 1980, regulations for an export permit system were announced, which returned to the MFT some degree of veto power over exports.<sup>105</sup> Under the regulations, Chinese companies seeking to export certain commodities must apply for an export permit from either the MFT or local foreign trade bureaus. The regulations cover import and export corporations under the Ministry, as well as local FTCs.<sup>106</sup>

In addition, there have been press accounts of local authorities criticizing the central trade organs. Under the recently promulgated regulations for SEZs in Guangdong,<sup>107</sup> approximately ninety-five industrial enterprises have been allowed to experiment with greater decisionmaking powers.<sup>108</sup> A major problem has arisen due to the central government's failure to return to the Guangdong flashlight industry company \$12.8 million in foreign sales earned by it in 1979.<sup>109</sup> Local authorities contended that the central authorities should have returned \$50,000.<sup>110</sup> Press accounts concluded that "some commerce and foreign trade departments still act according to outdated practices, which creates one barrier after another for enterprises trying to sell their products through their own channels."<sup>111</sup>

Mismanagement of local business and trade practices has aroused criticism from local and central authorities alike.<sup>112</sup> Under a nationwide program, local factories were allowed more authority to set production goals, set prices, and invest profits. It was reported that some factories diverted funds to build factories not within the central plan, raised prices, or began producing consumer goods in competition with other plants.<sup>113</sup>

On the positive side, there are accounts that decentralization has increased trade. In 1980, both Shanghai and Fujian reported sizeable increases in exports, which were attributed to the new

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<sup>104</sup> *Provincial FTCs Should Be Early Stop on Road to Selling to PRC*, 13 BUS. CHINA 109 (1980).

<sup>105</sup> CHINA ECON. NEWS 3 (July 19, 1980).

<sup>106</sup> *Id.*

<sup>107</sup> 1980 REGULATIONS ON SPECIAL ECONOMIC ZONES, *supra* note 9, at 28.

<sup>108</sup> FOREIGN BROADCAST INFORMATION SERVICE-PEOPLE'S REPUBLIC OF CHINA L3 (daily rep., Nov. 19, 1980).

<sup>109</sup> *Id.*

<sup>110</sup> *Id.*

<sup>111</sup> *Id.*

<sup>112</sup> Butterfield, *China Plans to Moderate Self Rule for Factories*, N.Y. Times, Dec. 10, 1980, at 29, col. 1.

<sup>113</sup> *Id.*

foreign trade marketing approaches.<sup>114</sup> Another report described the "proliferation of PRC trade and business organizations" as resulting in "swaths" being cut through the bureaucracy to "quicker, more efficient dealings," and cited the establishment of the local foreign trade corporations as a good example.<sup>115</sup>

## VII. CONCLUSION

In the words of a commentator on the current Chinese economic scene:

The Chinese economic system is being revolutionized—de-revolutionized might be a better word—to give free-market forces greater play. It is happening slowly, piecemeal and sporadically—there is a countertrend at the moment to more central control—but it is happening. The changes of the last two years, if carried to their logical conclusion, will completely transform the economy.<sup>116</sup>

The indications are that, despite initial problems and bureaucratic opposition, decentralization will continue, and that in the coming decade, barring a major political or economic upheaval, all of the provinces will establish foreign trade systems, with foreign trade corporations and import-export commissions.<sup>117</sup> However, predictions that by 1981 other provinces would develop trade institutions modeled on those of the two provinces and three municipalities are premature. From a vertical, heavily-centralized regime of foreign trade management under the MFT and its FTCs, there has been a shift to horizontal control, with the new institutions taking over the actual supervision of trade, as well as responsibility for particular trade activities.

The pause in the movement for economic reform for "readjustment" is not a change of direction, or a step backwards. In the words of Deputy Prime Minister Bo Yibo:

If it appears that it is a retreat, it may coincide with a Chinese saying that you have to step back in order to jump forward.<sup>118</sup>

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<sup>114</sup> *New Trade Outlook*, *supra* note 62, at 11.

<sup>115</sup> *Provincial FTCs Should Be Early Stop on Road to Selling to PRC*, 6 BUS. CHINA 109 (1980).

<sup>116</sup> Ching, *Despite Setbacks, China Continues Movement Toward A Freer Economy*, Asian Wall Street J. Weekly, Jan. 12, 1981, at 2, col. 1.

<sup>117</sup> *China Wire*, CHINA BUS. REV. 3 (Sept.-Oct. 1980); JOINT PUBLICATION RESEARCH SERVICE-CHINA REPORT, Economic Affairs No. 94, 88 (Nov. 3, 1980).

<sup>118</sup> Smith, *China's Reappraisal Hampers U.S. Trade*, N.Y. Times, Oct. 30, 1980, at D17, col. 1.

"Readjustment" is a slowdown, a change of pace, directed toward correcting imbalances created by the early over-emphasis on capital construction. "Recentralization" has occurred so far only in the reduction of expenditures on capital construction, and the reassertion of central authority over such expenditures.<sup>119</sup>

The central government will continue to assert leadership in industries, such as construction, that have national strategic importance. It will also maintain control in allocating crucial goods and resources, such as military equipment, energy resources such as oil and minerals, and staple goods such as cotton. And, of course, the central authorities will manipulate interprovincial and foreign trade generally, through the mechanisms of fiscal and banking management and authority over wages and prices.

It is too early to predict whether China's new foreign trade structure and entities will survive in their present form. They must stand the tests of domestic opposition and foreign businessmen's demands. China's modernization thrust depends on acquisition of foreign currency and foreign technology. China's leaders appear confident that an efficient and responsive foreign trade system will be created out of the decentralization policies they are pursuing and that such a system will be an essential part of a modern China by the year 2000.

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<sup>119</sup> FOREIGN BROADCAST INFORMATION SERVICE-PEOPLE'S REPUBLIC OF CHINA L15 (daily rep., Jan. 5, 1981).