

DEVELOPMENT IN CHINA:

**A Feasibility Study for a Mixed-Use Real Estate Development Project
in the People's Republic of China**

by

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**Bachelor of Architecture
University of Cincinnati
(1985)**

**Submitted to the
Sloan School of Management and the
Department of Civil Engineering
in Partial Fulfillment of
the Requirements of the Degrees of
Master of Science in Management and
Master of Science in Civil Engineering**

at the

**Massachusetts Institute of Technology
May 1988**

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ABSTRACT

During the past decade the People's Republic of China has enacted important social and economic reforms in an attempt to catch up with current Western technology. These reforms have sparked tremendous interest in the international business community. Several multi-national corporations, interested in low labor costs and large market potential, are either doing business or have representatives in China negotiating for future operations.

This flurry of activity occurred with such speed that the available facilities in China proved insufficient in fulfilling the needs of business representatives, leaving them no alternatives but to live and work out of hotel rooms. Thus the premise is that there exists a need for real estate development which suits the needs of these representatives.

This paper evaluates the feasibility and market potential of a project designed to fill these needs. The analysis proceeds along three lines evaluating the political, economic, and legal environment; the industry structure and process; and the quantification of market demand and supply. The information is then synthesized into conclusions about each of the three areas and the overall market potential.

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Acknowledgments

I would like to thank Linda and Sue for the use of their office and their unending support; Paula, Tracey, and Karen for handling my mail; and Walter Chang for his continued assistance throughout this project.

Dedication

To Gerald S., Betty R., and Adrienne E. Burns

and

Burl and Gladys Remy

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INTRODUCTION

During the past decade the People's Republic of China has made important social and economic reforms in an attempt to catch up with current Western technology. These reforms have sparked tremendous interest in the international business community. Several multi-national corporations, interested in low labor costs and large market potential, are either already doing business in China or have representatives in China negotiating for future operations.

This flurry of interest and activity caught China without sufficient adequate facilities to deal with the needs of these business representatives. There is a severe lack of suitable office space and residences available to them, representatives must live and work out of hotel rooms. This is not just an uncomfortable situation but it is a difficult and inefficient way to attempt to do business.

Thus there is a need for development which suits the needs of these representatives. This thesis looks into the feasibility of developing a mixed-use complex which would provide a complete living and working environment. The complex would include office space, residential units, recreation facilities, and a few small shops and restaurants.

To support the office occupants the management of the complex would provide centralized services such as a secretarial staff, copying and computer facilities, and telecommunications facilities. The plan would be to lease the office space and residential units to companies which desire to provide a more efficient working atmosphere for their representatives in China.

The People's Republic of China was established with the defeat of the Kuomintang by the communists in 1949. Since that time the evolution of the PRC has been based on the philosophies of socialism. From its starting point in Marxist/Leninist theory the PRC moved in its own unique direction under the leadership of Mao Tse-tung. Following a philosophy of self-reliance, China enacted an import substitution industrialization policy and thus remained an

enigma to much of the world. After 1976, with the death of Mao and the fall of the "Gang of Four" and the rise of the "pragmatists" and Deng Xiaoping, China changed many of its own policies and enacted many reforms designed to bring the country to the technological level of the Western world.

Understanding the context within which these reforms takes place is an important part in understanding the reasons for and the objectives of these reforms. Chapter one takes a brief look at the background of the country from political, economic, and legal perspectives in an attempt to understand the cultural basis behind the reforms. This will act as a guide to help predict future directions and potential.

Coming down in scale from the national level, Chapter two focusses on the real estate development industry specifically. Since the history of China is so unique, it is natural that the industry has evolved differently over time than in the Western world. A simplified structure of development in the United States is utilized as a backdrop to look into the idiosyncracies of doing development work in the PRC. Once again the view is from both pre-reform and post-reform perspectives. The information touches on the issues of land ownership, financing, design, and construction in an attempt to define the key success factor for completing a successful real estate development project in the PRC.

Before the expense of a design and construction of a building is undertaken, it is prudent to make sure that there is indeed demand for such a project. Chapter three begins with a brief description of the nature of the problem which business executives currently face, moving into quantifying the potential demand. Since foreign invested real estate projects in China have become so popular recently there is significant competition among developers. A look at projected supply may give indications of potential overbuilding. Finally, there is a customer profile to provide definition of characteristics of potential buyers and direction for essential project attributes.

Chapter four is the analysis and conclusions. It synthesizes the earlier information into conclusions about market potential, industry attractiveness and key success factors, and future country developments. Chapters five presents

cities for possible development and points out what to look for in the future in both the industry and in the political scene. Chapter six assumes that a development project is being undertaken and outlines the potential strategies which might be used in presenting the project to the various players.

Due to the limited amount of information on the topic and the extremely rapid pace of change within the country, several means of data collection were used in an attempt to gain the most up to date information available. In addition to a literature search, much of the information was also collected by the author through a mail survey and personal interviews.

CHAPTER ONE: THE PEOPLE'S REPUBLIC OF CHINA

1.1 POLITICS

1.1.1 THE CHINESE COMMUNIST PARTY

The Chinese Communist Party (CCP) is the dominant organization within China. The formal organization of the CCP is laid out in the party constitution. Party constitutions are adopted at meetings of the National Party Congress (NPC). These meetings are supposed to occur every five years, according to the party constitution, but historically party congresses have been very irregular. Party congresses nominally elect the presidium, which in turn elects a standing committee (SC). In theory, the congress also elects the membership for the Central Committee (CC), the Commission for Discipline Inspection, and the Advisory Committee. In reality, the nominations for these offices are controlled by the standing committee and the congress merely ratifies the decisions that the SC has already made.

The CC is the most important body within the party. It meets at least once every year and acts for the Congress, when it is not in session. The CC elects the Secretariat, the Military Commission, the Politburo and its Standing Committee, and the General Secretary of the party who presides over the CC, the Politburo, and the SC.

The Politburo and the SC are the highest decision making bodies within the party and within the country, formulating and enacting all state policies. The Secretariat works under the direction of the Politburo and the SC and handles the administrative work of the party leadership through several departments. It is through this structure that the Politburo controls the day to day activities throughout the party.

The structure throughout the lower levels of the party is virtually identical to that at the center. There are various levels of party congresses which elect corresponding area committees, advisory commissions, and commissions for discipline. All of these groups while theoretically independent are naturally

responsible to the upper level commissions and their actions are always subject to approval from a higher authority. (Exhibit 1)

1.1.2 STATE STRUCTURE

The heart of the state structure in the PRC is the people's congress system. People's Congresses are representative assemblies which meet once a year. There are 4 levels of congresses ranging from the National to the Township level. Representatives are elected to the Township People's Congresses by the voters, citizens 18 and over, and election to the higher levels is done by the subordinate congress.

According to the state constitution, the congresses are "the highest organs of state power."¹ At the top of the hierarchy is the National People's Congress (NPC). The NPC discusses and approves work reports and the state plan, legislative drafts, and elects major officials of the government. (State Council, Supreme People's Court, Supreme People's Procuratorate, Central Military Commission) It also oversees 6 permanent committees: minorities, law, finance, foreign affairs, overseas Chinese, and one for education, science, culture, and health. The NPC also has a SC that meets once every two months which exercises the formal powers of legislation and oversight.

The State Council is the primary administrative organ of the government. It usually meets once a month and has a SC which meets twice weekly. It issues decisions, orders, and administrative regulations and can submit legislative proposals to the NPC. It is the functional center of state power.

The Central Military Commission is charged with the direction of China's armed forces. The chairman for this commission is elected and he nominates the remaining membership for approval by the NPC. This group is the state's functional equivalent to the Party's Military Commission and while the two are charged with similar functions overlap is avoided by having the same individuals serve as the heads of both groups.

The PRC legal structure is based on the Russian model. The system consists of general courts and procuratorates, as well as several special courts which exist

at all administrative levels. The Supreme People's Court and Supreme People's Procuratorate are responsible to the NPC and its SC. This relationship is repeated at all administrative levels. Procurators are supervisory, investigative, and prosecutory officials who are involved in the investigation of individual cases and also in the supervision of the legality of government work and the proper operation of the court system. (Exhibit 2)

1.1.3 INTERACTION

The structure of the state system and the election process appear, at first glance, to be quite representative. In fact, the major principle embodied in PRC political institutions is that of "Democratic Centralism."² The question is how democratic is the system, really?

Comparing the organizational charts of the CCP and the PRC state structure, one notices that party organization parallels state organization at every level.³ This is not merely coincidence. This similarity of structure was designed by the party and permits them to monitor and guide the work of state organs through party members in them.

It should be noted that "the dictatorship of the proletariat in communist China, called the "people's democratic leadership," is considered by the CCP to be truly democratic, since it is a dictatorship of the vast majority of the people, over a tiny minority of reactionaries."⁴ The party sees itself as a leadership organ, deciding policies to be implemented by the state structure and supervising the execution of these policies.

Although the NPCs in both the party and state constitutions are supposed to be the highest organs of power, they really have very little authority. The congresses meet infrequently, therefore the power is really in the hands of the party committees. The Politburo and its SC form the apex of the party pyramid and are the key decision-making organs for all major policies. The role of the CC is primarily to ratify the decisions made by the Politburo and its SC. State institutions, such as the NPC, exist simply to give an aura of legitimacy to policies predetermined by the party.

The CCP maintains its leadership role through its control of the state electoral process which is certainly not what Westerners would consider a democratic process. Although congress and committee members are voted on, they are subject to approval by the next ranking level of government. The higher the level of government the more interest the party takes in the nominees. The CC is responsible for convening sessions of the party congress. The committee predetermines the agenda and preselects the nominees for specific positions. It was not until 1979 that the state installed an election system with more candidates than positions to be filled, and this was only implemented at the county level. In practice, this makes the party-state system much more centralist than democratic.

1.1.4 INTEREST GROUPS

In spite of all these links the Chinese political system is not entirely unified. Within this centralist framework there are still various interest groups which do not always share the same views as the central leadership. The alliances among these groups is forever in a state of flux and it is this dynamic group interaction which is responsible for the dramatic policy shifts which occur in the PRC. David Goodman has edited a series of essays which define seven different interest groups.⁵ These groups either have been, are, or have the potential to be influential in determining public policy.

1.1.4.1 Economists

The economists have experienced renewed influence since the fall of the "Gang of Four" in 1976. However, their position in the overall power structure is still tenuous. As a group the economists lack cohesiveness. Although a homogeneous group in terms of socio-demographic background, the members have very different views about future development. These differences divide them along three approaches to development strategy: The new mobilization approach, the institutional approach, and the liberal approach.⁶ Due to this lack of unity and because their role is not institutionalized within the system, the

economists must still rely on other groups who share their views of economic development to have any influence over the policy decisions of the leadership.

1.1.4.4 Teachers

Teachers, like economists, have benefitted greatly from the reform movement of the late 70's and 80's. Although divided to a certain extent along primary, secondary, and tertiary levels of education, the common bond still remains strong enough to make them an important influential force. Teachers are not as dependent on other groups as are the economists because they have an "implicit power which accrues to them from their distinct occupational role."⁷ They have used this to their advantage and have fared well during the past decade because of this role as transmitters of knowledge and expertise which is crucial to the success of the modernizations.

1.1.4.7 Intellectuals

Intellectuals have been important because of their traditional leadership status but their involvement in policy formulation is in no way institutionalized. The role of intellectuals may be characterized by a cyclical process. To begin, disagreements in the political leadership of the Party or state develop. When these disagreements cannot be settled within the higher leadership circles, discussion and debate devolve upon a wider group and certain intellectuals are mobilized. Eventually there is an emergence of a new consensus in the leadership and debate is curtailed. At this point the intellectuals are no longer needed and are once again relegated to their previous position. Without structural changes they will still be subject to the vagaries of the past.

1.1.4.3 Military

The People's Liberation Army (PLA) has played a significant role in the history of the PRC. They have traditionally been utilized by the Party to maintain control during periods of domestic unrest and to mobilize the masses for implementation of central directives. However, it is difficult to identify a unified PLA position within

the PRC political environment. There are numerous factional splits within the leadership. Changes in relations with the outside world have meant alterations in the balance of military and civil power. Lack of developed expertise has meant that the PLA has developed few clearly defineable interests. Since the PLA was organized for guaranteeing security it must respond to unstable domestic politics which causes the armed forces to enter into different relationships with civil authorities.

1.1.4.2 Provincial Party First Secretaries

The first party secretary of the provincial committee of the CCP is the ranking cadre in each province and has become an increasingly important figure in national politics. The provincial party first secretary can best be defined as a "political middleman".⁸ This is characterized by the opposing views of his role as: 1) an agent of central control in the province, directed by the Politburo in Beijing; 2) the formal leader of the province and acknowledged representative to the center and other provinces. This duality highlights the first secretary as both a national and provincial leader, and as a man who must satisfy two constituencies.

The importance of the position can be evidenced in many ways. The secretary is the link in the hierarchy between policy formulation and policy implementation. Therefore, the center takes great interest in the position and appoints the secretaries, who take the policies conceived and passed at the national level and implement them at the provincial level. Thus a secretary is dependent on the center for his future career.

The position of provincial party first secretary is also viewed as an important step on the way to Politburo membership. Therefore, when the factional powers within the CCP realign at the national level the jobs of many of the secretaries become uncertain. This was witnessed during the Cultural Revolution when only two of the first secretaries retained their positions.⁹

1.1.4.6 Workers

Since the arrest of the "Gang of Four", the Chinese leadership has stressed the need for democracy and legality as the foundation stones for reviving Chinese society and bringing about the goal of the four modernizations. There are two factors which give a social, or occupational group greater influence. The degree of organization and the value of the group to the state. Workers fare well in both these areas. Although small relative to the total population, the total quantity of workers is numerically large. They are highly concentrated and tightly organized at the national and work-place levels. Workers are the "main force in carrying out the Four Modernizations" and therefore are also crucial to the functioning of the economy.

1.1.4.5 Peasants

The final group which is of particular interest is, of course, the Chinese peasants. While theoretically the peasants should be the most important group in any socialist society, in China they have very limited power. Their interests are supposedly transmitted to the political leadership through several formal channels.

- 1) Numerous institutions are supposed to act in the interests of the people. However, the officials in control of these institutions often have their own agendas which revolve more around personal satisfaction than group needs.
- 2) Mass meetings, at which peasants are asked to make decisions which are not already predetermined. In reality, these meetings are infrequent and generally are only called when the leadership needs to mobilize the masses to accomplish a particular task.
- 3) Elections for local people's congresses which are held once every two years. Unfortunately, these elections have not been regularly held and until recently were informal and always had the same number of candidates as positions to be filled.

4) Mass organizations made up of poor and lower-middle class peasants, which are supposed to provide a forum for interest articulation. While there have been attempts to revive them, very few of these organizations actually exist.

5) Elite representation

6) Letters to newspapers and radio stations, petitions to authorities, and big character posters. While supposedly free from intervention the government still monitors and censors the media and has been known to change policies limiting or eliminating character posters if "unhealthy" activities develop.

Due to the relative ineffectiveness of these formal channels, informal and illegal methods of influencing decision-makers have developed.

1) Personal relations networks based on strong ties of lineage and village lay the groundwork for a high degree of favoritism.

2) Bribery of local officials is commonly used as a means of getting appointed to the best jobs or of gaining access to controlled quantities of scarce goods and resources.

3) Speculation and black market sales of controlled commodities to capitalize on price restraints and product rationing.

4) Under-reporting of output to reduce the amount of products sold to the government at below market prices.

5) Withholding goods and services to protest prices.

6) Demonstrations such as the student marches of last year to protest the pace of reforms.¹⁰

These methods have still given the peasants little influence over the political leadership, to date, and certainly have not provided the amount of representation which would be expected in a socialist state.

1.1.5 FACTIONS

At the present time, these various groups have united to form two competing factions. The unifications are centered around competing views on the proper methods for economic reform. The "reformists" led by Deng Xiaoping are a combination of "pragmatists" and "liberals". They are urging for sweeping economic reforms in all sectors of the economy. They have been the architects for the "responsibility system" in the agricultural sector and the move to greater enterprise autonomy in the industrial sector. They believe in a balanced growth pattern through the simultaneous stimulation of investment and consumption and have pushed for the greater use of more market economy methodologies to achieve the "four modernizations."

The "conservatives", while still agreeing about the need for economic reforms, are still deeply tied to Maoist philosophies. They believe in the restriction of current consumption so that the maximum level of resources can be used for investment. Also in line with Maoist tradition, they are still very cautious about the use of free markets because of the close association of market economies with capitalism and the belief that the introduction of free market mechanisms contradicts fundamental socialist philosophies.

1.1.6 REFORMS

These two factions are also the combatants in the debates over political reforms. Since reforms of the political system are more closely related to the future of the Party, the battles over political restructuring have been perhaps the most intense of any. They have also resulted in the fewest number of reforms.

The reformists have been pushing for the need for political reforms in close conjunction with economic reforms. Their belief is that the biggest problems for the economic reforms come from a bureaucratic structure that is ill-suited to

carrying them out. In line with this thinking the reformists have been striving to achieve two objectives. First, they believe that there should be more popular representation in the election system. Second, they have been attempting to lessen the direct ties between the Party and the state by trying to prevent any individual from holding top positions in both structures.

The conservatives, in general, have been unwilling to bend on either issue because of their concerns over anything which they feel encroaches on the powers of the Party and State. Therefore, the only political reforms which have taken place to date have been at the county level. They have included direct election to the people's congress and the inclusion of more candidates on the ballot than spaces to be filled.

Although there have been a minimum of political reforms there have been administrative reforms which may point the direction of things to come. Enterprises have been given more autonomy in managing their own operations by releasing managers from direct control of the central planning authority. New laws have also been passed which prevent interference by local government officials. These changes are leading the way to a separation of industry from state control and may signal even greater changes which are yet to come.

1.2 ECONOMY

1.2.1 STRUCTURE

The PRC in principle has traditionally had a centrally planned economy. In a command economy all flows are controlled by the central planning authority. (cpa) The planning authority controls all physical resources including land, buildings, machinery, and other capital goods. (Exhibit 3) They also make all decisions concerning utilization of inputs, production of outputs, quantities of consumption, distribution of income, and investment in additional capital construction. In doing this the authority concerns itself with maintaining three equilibriums;

1. The value of consumer goods must equal the value of goods desired by consumers.
2. The books for all enterprises under its control must balance.
3. It must balance the national budget or find ways to finance its deficit.¹¹

Countries with command economies attempt to maintain these balances with state planning and through the enforcement of an elaborate set of controls. The planning process for achieving the balance of inputs and goods has several steps. First, the authority sets production targets or quotas based on what they want produced (rather than realistic production projections.) The cpa then obtains projections and requests for inputs from the various enterprises. The quantities of inputs requested are then compared with the amounts to be produced. Based on the needs to balance this flow of materials, the cpa then tells some enterprises to reduce their input requirements (often without reducing their quota.) In this way the cpa balances the flows of materials throughout the country.

The cpa also evaluates capital investment needs and balances the flow of money. It achieves this by setting prices for all inputs and outputs including the wage rates of workers. This gives the authority the power to determine the profits and losses for all enterprises. It gives the cpa the ability to implicitly distribute funds to enterprises for capital expansion. It also allows them control over the distribution of income and thus provides them with another means of limiting current consumption in addition to the rationing of goods.

1.2.2 PROBLEMS

It should be apparent from this description that everything to do with the economy goes through the planning authority or a ministry or agency working for the cpa. Therefore, the success of the economy rests solely on the planning authority's ability to correctly calculate flows and impose its decisions. This naturally requires a large staff which collects and analyzes data from the enterprises, then makes decisions and supervises their fulfillment.

Obviously, in an organization of this size and with such a broad mandate there are bound to be problems. Collecting all the data necessary to make not just macro but also micro-economic decisions is a virtually impossible task. Even if the data could be collected, the size and scope of planning the economy for an entire country is a formidable job. These problems have led to some very unrealistic plans in the past. Ensuring adherence to the plan is not simple either. The supervising administrative staff must see to it that plans are carried out down to the smallest economic units. This task is difficult enough under the best of circumstances but is complicated by the fact that the administrative units of each province have their own economic and political objectives which do not necessarily match that of the cpa.

In addition to the planning and administrative problems, there are also problems inherent within command economies which further aggravate the problems. First of all, because administrative control plays such a large role in the economy, political changes have a much greater impact than they would in a market economy because of the volatility in policy changes which often accompany changes in leadership. Labor difficulties are also a source of numerous problems. In terms of job assignments there is often a mismatch between qualified workers and jobs, because desirable jobs are often assigned based on favors. This is due in great part to the elevation of these positions because of the lack of material incentives and the setting of wages.

All of this leads to a high level of inefficiency. Since jobs are guaranteed and wages are set independent of productivity, it is very difficult to motivate workers. It is also hard to motivate managers to improve efficiency because their goals are to meet their assigned production quota and not to maximize profits. This in turn leads to a host of other problems. Since managers are penalized if production targets are not met, input estimates tend to be high and excessive input inventories become a problem. There is no formal mechanism for redistributing these inventories and they either remain unutilized or find their way to the black market. Since not only raw materials inputs but also spare parts for machinery are allotted by the authority, many production enterprises machine their own parts to

avoid the lengthy delays that accompany formal requests. This leads to an enormous amount of duplication within the system.

1.1.3 REFORMS

The underutilization and inefficiency which proliferated during the 1960's and 70's has given way to the economic reform movement of the 80's. The goal of the economic reforms is to achieve the "four modernizations" of agriculture, industry, national defense, and science and technology. These are ambitious objectives aimed at allowing China to catch up with the Western world by the year 2000. With these goals in mind, the third plenary session of China's 11th party congress adopted a policy of "readjustment, restructuring, consolidation, and improvement" which has proved to be highly successful for the past decade.

1.1.3.1 Domestic

The first step, was to increase productivity in the agricultural sector. There were two reasons for this. First of all, in 1978, the "iron rice bowl" was not living up to its name and 150 million people starving.¹² Second, there was also a lack of resources needed for industrial production activities. This meant that precious foreign exchange was being consumed for importing grain and raw materials rather than technology. This would have to change if the modernizations were to succeed. Therefore, a series of agricultural reforms were adopted which have come to be known as the "responsibility system."

To begin with, land ownership was changed. During the 70's, all of China's farmland was organised into communes which were at that time considered the most important economic unit. The land was farmed collectively, with local officials dictating to farmers what they should grow, when and where. In 1978, under the Deng led reforms, these commune officials were stripped of their authority. The land was confiscated and redistributed to families, and the household became the basic economic unit. Along with the redistribution came a relaxing of restrictions as well. Farmers were now given 15 year leases on the land and the freedom to grow what they liked. The means of determining the

amount of crops sold to the government was altered from a percentage of harvest to a fixed contracted amount. This meant that there was now incentive for the farmers to produce more because now they could do what they wished with the excess above quota. The government also increased the official prices of crops. In other words, the government agreed to pay more for the produce which it purchased. All of these moves gave the farmers more direct responsibilities over their land and direct rewards from their own efforts. The success of the "responsibility system" is evident from the growth in the agricultural sector. (Exhibit4)

With reform in the agricultural sector well underway, sights turned towards industry. In December 1984, the Party congress instituted a series of new policies aimed at copying the success of the agricultural reforms in the industrial sector.

Different forms of ownership have begun to be used and permitted within the industrial sector. Many inefficient state run factories have been sold off to groups of employees and are now run as collectives. Although not officially recognized, privatization and entrepreneurship have also begun to creep into the system. So far, this activity has been primarily in the service sector but there have been some ventures into the industrial sector as well. In addition to these new forms of ownership, stock and bond distribution and ownership has been experimented with since 1986.¹³ All of these new ownership forms have been used to supplement and replace the strictly state controlled system.

Naturally, with the development of more economic units operating outside of the state controlling mechanisms there was a need for administrative reforms. The major move was to make enterprises more autonomous. In general, factory managers are now permitted to sign contracts with suppliers of their choice and to sell their products to whomever they chose. Since this reduced the ability of the system to monitor and control capital flows, restrictions were relaxed and a tax system was also enacted which taxed the profits of a company at a given rate. This new tax system left distribution of the profits after taxes to the discretion of the enterprise managers.

If the managers were to be given funds, then they needed to have means to use them. This translated into a relaxation of the "iron rice bowl" labor principles. The traditional nine wage grade principles have given way to fluctuating wages and bonuses based upon company performance, while the policy of guaranteed permanent employment has undergone some dramatic changes. Workers are no longer assigned to jobs for life but can be hired and fired by enterprises in keeping with a new system of contracting for labor. Managers have also been given additional freedoms in determining the amount of resources to be used for capital construction.

With the introduction of all these new freedoms and the direct interaction between suppliers and producers, it became necessary to introduce a series of price reforms. Prices in China have been fixed by the government at artificially low levels for a number of years. If direct interaction between economic units was to be allowed, then the prices of goods must reflect the scarcity of resources available in the country. Therefore, prices of some goods have been allowed to rise introducing a small degree of market pricing mechanisms into the system. However, this does not apply to all goods and an artificial cap still exists on the prices for most goods. This has had a limiting effect on the effectiveness of the reforms put into place to date but indicates the trend in which reforms are headed.

1.1.3.2 Foreign Investment Community

The political leadership has not only been concerned with domestic reforms but has also been very interested in encouraging foreign involvement in the economy. The Chinese know that foreign investment and technology transfer are two essential elements for success of the "four modernizations." Therefore, they have undertaken a series of actions designed to attract Western companies.

The establishment of the Special Economic Zones (SEZs) in 1980 was the first step to attract foreign investment. The political leadership recognized not only the need for foreign investment to help in the modernizations, but also realized the importance of separation between the domestic centralist system and the international market economy. Naturally the leadership did not want to risk losing

control over the pace of the reforms, more importantly however, they realized that their system lacked the sophistication to coexist with a market economy. Therefore the SEZs were created.

The SEZs were envisioned as autonomous economic regions. They were given two mandates. One, to actively pursue and attract foreign investment and technology to China. Two, to act as beachheads for the economic modernizations which were to spread throughout the country. To accomplish this the SEZs have been allowed broad range of freedom. They do all the planning for activities within their designated boundaries. They are permitted to negotiate directly with foreign companies and are given priority for uses of foreign exchange. They are also allowed to develop their own bodies of economic law.

Of course, the leadership was not going to allow the SEZs to develop without maintaining a certain amount of control so the joint venture regulations were enacted. With the SEZs established to attract foreign investment, the JV regulations were established to ensure technology transfer. The regulations established ownership at 51% domestic and 49% foreign. They also defined the management structure of the venture, the responsibilities of the two partners, and the duration of the venture. While these regulations may have appeared good to the Chinese, they encountered problems within the international business community.

Foreign companies found out very quickly that once they had made their investment they had little control over the venture. The local content laws forced domestic sourcing which was governed by the cpa and problems with the central allocation system often caused scheduling and cost overruns. In addition to these limitations the government control of labor further exacerbated the problem. The Chinese Labor Bureau commonly assigned workers to jobs who had little or no experience at the task. Once the worker had developed the skills he would often be pulled from the venture and placed in a state run enterprise while another untrained worker was substituted in his place. Companies also found that the limitations on wages and incentives were too strict and provided them with no means of encouraging productivity increases.

Manufacturers also found that there were frequently disagreements over the expectations of the venture and the firms contribution. A common problem which many companies faced was disagreement over what market the venture was making products for. Foreign companies frequently opened operations in China hoping to sell to the Chinese market. The Chinese planned on exporting to the rest of the world and expected the firm to supply the world class technology to produce the products. These problems often led to compromise agreements which neither party was really happy with.

Firms experienced major problems due to forex shortages. Even firms which had government approval for foreign sourcing of materials often could not get the foreign exchange from the government. Therefore, if they wanted the materials they had to foot the bill out of there own pocket. This might have been alright if they would have been reimbursed but once again forex shortages became a problem. Companies often experienced problems in getting foreign exchange not only for their material contributions but for profits as well. They often faced situations in which the government would try to pay in goods rather than money.

As if these problems weren't bad enough, because of the non-existence of any laws, companies found that their patents, trademarks, and trade secrets were given no protection. Therefore, not only their Chinese partner but any competitors which might happen to have operations in China would have unlimited access and use of a firms technology. This meant that going into China became an extremely high-risk endeavor for any company.

Therefore, after an initial period of enthusiasm in 1980-81 foreign investment activity in China slowed considerably. This served as a red flag to the Chinese and they have moved to correct these problems.

New regulations have been passed which outline four different types of foreign investment ventures permitted in China, including wholly-foreign owned subsidiaries under certain circumstances. Along with this have come some changes in the rules governing ownership of assets as well. An important development in the real estate area was the availability of land in Shanghai to

foreign developers on a 50-year lease basis, which in essence amounts to foreign ownership of land in China, something which has not existed since 1949.

Several steps have been taken to increase the sophistication of financial services. The development of a nationwide banking system has begun. These banks are now granting loans and charging interest. They recently also began to experiment with a mortgage system. The government has also allowed experimenting with new financial instruments such as stocks and bonds in both the foreign and domestic communities. They have also formalized forex regulations by having banks issue letters of credit for foreign invested ventures.

There have been several changes in the management arena as well. The regulations for structuring the top management of a venture have been relaxed so that foreign firms now have more input power in the decision-making process. In the sourcing of materials, ventures are now allowed to sign contracts directly with the domestic suppliers and more external sourcing is being permitted. Companies have been given the right to hire and fire workers and the government is now experimenting with company-employee labor contracts. The grade structure for wages has been relaxed allowing for differential wages and material incentives. These reforms have been encouraging to foreign investors.

1.3 LAW

Misunderstandings are an inherent part of cross-cultural communications. Ideas are often difficult, if not impossible, to transfer because of different modes of thought that have developed over time. Thus a "taking culture" will select traits of a "giving culture" and reinterpret what it borrows into a context that it understands.¹⁴ Therefore, cultural borrowing does not necessarily assure cultural understanding. These problems of translation and interpretation are, perhaps, nowhere as critical as in the realm of law for it is in the field of law that Western governments and businesses appear least likely to compromise and to accept uncertainty.

For centuries, Western countries have held the belief that their own values are the correct values. Therefore, because of a desire to create one world order,

these countries have tried to impose their beliefs and organizational structures upon other countries and cultures, often running into problems because of a lack of intercultural understanding. This tradition of misunderstanding is typical in the relationship between China and the West. To overcome the problem, we must compare and understand the differences in thought between the two cultures.

1.3.1 WESTERN LAW

Western society is very dynamic and individualistic. Within this environment law has been consistently trusted "as the main carrier of shared values, the most effective agent of social control, and the only reliable principle capable of moderating and reducing the reign of passion, arbitrariness, and caprice in human life."¹⁵ Law is seen as essential for providing order among the general public and structure for government.

The fundamental legal concept or entity in Western law is the individual. In western cultures the individual is expected to function not only as a member of society but also as an autonomous human being and a high value is placed on originality and creativity. The laws are designed to protect the rights of individuals to pursue their own interests while preventing them from infringing upon the rights of others.

This ideology has been transferred into currently prevailing international law which recognizes the rights of sovereign states and is designed to maintain order and define remedies in the hopes that armed conflict will be avoided. It assumes that peace and order are the preferred and if war should break out it establishes rules which are to be followed.

1.3.2 CHINESE LAW

The structure of Chinese societal thought is very unique. It can be differentiated from that of Western societies in three primary ways. First, individual rights are inconceivable in Chinese society. Second, the Chinese notion of order excludes that of law. Third, the concepts of state and nation are unknown in traditional Chinese thought.¹⁶

In Asian tradition, the main structuring principle is based on the theory of unity. The group is the primary focus of concern and individualism is viewed as subordinate to authority. "This ideology has been administered effectively not through impersonal laws, legislatures, federal devices, and judicial systems but through the mechanisms of family ethics, personalism, and social ritual, on the one hand, and of an elaborate administrative bureaucracy on the other."¹⁷

The guiding principle has been the Confucian Li/Fa system. It applies to everyone and dictates carefully graded social relationships. An individual's Li "regulated his behavior, his name, his decorations, the color of his dress, the kind of carriage he was allowed to ride in, and the type of material his mattress could be made of."¹⁸ Fa was a system of punishment which was enforced upon anyone who could not maintain li. The head of the household, or the individual with the highest li, was the "judge" in determining violations of li. The purpose of these decisions was not to determine right and wrong, but merely to maintain harmony and the status quo. Hence, the person with the lower li was always "wrong" and would be severely punished. Punishment was usually of a physical nature and was very harsh. The philosophy being that the punishment should be harsh enough so that it would not be necessary to punish again.

The ideas of unity and order were not just limited to thoughts of domestic harmony, but dominated the Chinese concept of world order as well. China, "the Middle Kingdom," was seen as the center of the world and superior to all other societies. The governance of China was believed to have been bestowed on the emperor by Heavenly Mandate. A mandate which throughout Chinese history was often accomplished by armed conflict. Neighboring societies were viewed not as equal sovereign states but as inferior members of China's Confucian family. In this international context li meant that every other society was subordinate to the Chinese. The imposition of fa meant that "war was presented consistently as a necessary chastisement of under developed, uncouth peoples, or as punishment for states that were badly ruled."¹⁹ In this context, Chinese thought promoted the "sublimation of war as the dominant purpose of all political life and the denigration of peace as the source of the six maggots of the state."²⁰

They believed that the state existed for the sole aim of conquest and that it was a misfortune for a prospering country not to be at war.

With the Confucian system as a governing principle the need for civil laws and courts was limited. Therefore, when the procurorate and court structures were established they were not charged with handling civil law cases. Instead, they were formed strictly to deal with problems of the state and the Party. The procurorate was/is basically a watchdog agency with the responsibility of investigating government officials to ensure that they carry out state policy. If the procurorate finds grounds for prosecution the courts then try the case. These courts are therefore unlike what Westerners are used to because they have nothing to do with civil suits and only have jurisdiction over state and Party affairs.

1.3.3 REFORMS

1.3.3.1 Domestic

Being based in this tradition it becomes clear why the Chinese are having a difficult time developing "laws." If the Chinese do not comprehend the notion of individual rights then how do they understand "laws" and "contracts"? If they do not believe in the rights of the "state" and the "nation" then how can they understand the structure and rights of the corporation?

In spite of these basic hurdles, China has made tremendous strides. Spurred by economic reform and realizing the need for a legal structure not only for maintaining domestic order but also for attracting foreign investment, the Chinese leadership has been very actively promoting a law writing campaign. The process for development of these laws has included borrowing laws from the West and tailoring them to China's needs and soliciting the aid of foreign lawyers in helping to develop laws based upon the experiences within their own countries. So far the results have been very encouraging with the development of over 300 laws of which approximately 250 are in the domestic and foreign investment arenas. To deal with disputes in these areas the Chinese have established an arbitration agency to hear all cases. If this forum proves unsatisfactory, the Chinese have

also established a new and separate court structure to deal with cases in these areas.

Two major developments for state enterprises are the State Industrial Enterprise Rules, adopted in 1983, and the Bankruptcy Law, adopted in 1986. The enterprise rules govern the link between enterprises and local state agencies and government departments. Since this link is so critical in a planned economy, Chinese leaders realized a need to establish legal relationships to replace institutional ones as the reforms began to substitute indirect economic reforms for direct administrative control. With this new freedom the development of contract law has become very important as the number of relationships between enterprises grows and the development of laws to address these needs are being very actively pursued.

The Bankruptcy Law was designed to discipline inefficient enterprises and is the most controversial of all laws written to date. But perhaps more important than the actual law itself is the direction that the resolution of the controversy about the law suggests for future developments. The debate centered on the issue of whether bankruptcy was even possible in a socialist state because of the assumption of permanent employment.

1.3.3.2 Foreign Investment Community

Two parallel laws applying to the foreign investment sector, the Regulations of the Guangdong SEZ (enacted January 1, 1987) and the Foreign Companies Bankruptcy Provisions of Shenzhen Economic Zone (enacted December 7, 1986), have also been implemented.

The Guangdong Regulations address establishment, operation, management, liability, and liquidation. The Regulations identify four types of limited liability companies including wholly foreign-owned enterprises, establish a minimum amount of registered capital for a company to maintain, and set rules for incorporation. They allow ventures to issue stocks and bonds and to pay dividends. Unlike the previous joint venture rules, the new regulations allow the foreign partner to appoint the chairman of the board if both partners agree, relax

restrictions on foreign sourcing, and have more involvement in labor management.

The Shenzhen bankruptcy Provisions provide legal clarification of the bankruptcy proceedings and division of assets upon liquidation. They discuss both voluntary and compulsory dissolution and outline the legal liabilities of both the Chinese and foreign venture directors.

In addition to these major "laws", the reforms have also encouraged development of laws and regulations in several other areas. China has developed rules for registering enterprises, invalidating contracts, establishing trademarks, tax management, accounting practices, labor relations, and advertising. They have also established an arbitration agency and a separate court system to handle disputes in these areas.

Although China has come a long way in a short time, there are still many questions which must be resolved. Domestic enterprise autonomy and forms of ownership continue to outpace legislation and there still are no regulations outlining the responsibilities of collective enterprises. In foreign investment ventures, the legal distinctions between a corporation and an enterprise are still vague and the distinctions between public and private corporations are still unclear. As China continues to develop new pieces of legislation to fill these holes it will be important to monitor the changes and make sure that the legislation is not just functional, but logically coherent and internally consistent with the entire body of law.

CHAPTER TWO: THE DEVELOPMENT INDUSTRY

2.1 REAL ESTATE DEVELOPMENT IN THE UNITED STATES

2.1.1 THE PRODUCT

The nature of the product of the development industry is quite unique. There are two primary characteristics which make buildings different than common manufactured goods.

First, the product is not transportable. Buildings are not like goods which can be manufactured in a plant and shipped all over the world. They are very location specific. Soil conditions may dictate the type of structural system which has to be used. Local design codes and regulations may determine size and shape. Site access and supplier availability can determine the types of materials and machinery to be used. Local worker skills may determine the construction techniques and processes to be used. Climate can play a large part of determining the building season and influencing the project schedule. The consideration and resolution of all these variables link a building to a specific location long before construction actually takes place.

Second, although in a microcosm sense buildings could be considered to be very similar in terms of the tasks involved, each building is very unique. While the method of putting in wires or pipes or drywall is basically the same from one project to the next varying architectural designs means that each building is different in terms of size, shape, materials and methods of construction. This means that the skills and techniques needed to construct a building change from project to project. It also means that the sequence of activities within the construction process may change. This makes the management and scheduling of each project unique to that project.

2.1.2 THE STRUCTURE

The most noticeable characteristic of the development field is the proliferation of firms that is continually occurring. This is true not only among developers but also among architectural and engineering design firms as well as construction firms. The proliferation of firms is prevalent in all these fields because of the low barriers to entry which exist. A developer simply needs an idea and minimal initial financial backing. An architect or engineer needs a degree and a license but very minimal financing. Contractors simply need the knowledge to bid jobs.

The nature of the product naturally effects the structure of the industry and the unique nature of each project plus the large number of variables associated with the successfully completing a project has lead to a high degree of specialization and thus a lack of vertical intergration. A project will involve a developer, financeer, architect, engineer, general contractor, and sub-contractors not to mention the possible involvement of seperate project managers, leasing agents, and property managers. Each of these participants has a unique and important role in successfully carrying a project to fruition.

Each one of these disciplines is also characterized by a high degree of fragmentation itself. In all of these disciplines a thorough knowledge of the local environment and its peculiarities is a critical success factor. Therefore, there has been limited horizontal integration as well. Instead there has been a proliferation of small privately held firms, competing in highly localized markets.

2.1.3 THE PROCESS

In keeping with the specialization and the proliferation of firms, the actual process of development is naturally very fragmented itself. Most participants are involved in the project for a very short period of time relative to its entire duration. The lack of vertical integration means that the value-added chain is much more like seperate links than a chain. (Exhibit 5)

Although each building and project team may be quite unique, the development process itself is fairly standard. The developer starts the process

with the generation of an idea for a potential project. He then goes through an analysis phase during which he evaluates the feasibility of the project and produces a project proposal. Armed with this proposal the developer begins to look for financing. The project will be evaluated by potential investors or lending institutions, who may or may not agree with the developers conclusions and provide the necessary capital.

Once financing is arranged an architect is selected and the design will proceed in earnest. The architects and engineers will strive to turn the developers vision into a realizable building. During this period time is spent giving presentations and revising the design to obtain the necessary approvals.

Upon completion of design, the contract is sent out to bid and a general contractor will be selected. He is responsible for the actual construction of the project. The general contractor obtains the necessary materials and sub-contractors for completing the work and coordinates their activities. Once the building is completed it is ready for occupancy. The sales or leasing agent then fills the space with tenants and the building is released to the property manager for ongoing maintenance.

This is a highly simplified explanation of the product, structure, and process of the real estate development industry. The unique nature of each project means that many variations on the theme are developed to handle individual project idiosyncracies. The preceeding description is intended to act as a framework against which the Chinese industry can be compared and contrasted.

2.2 REAL ESTATE DEVELOPMENT IN CHINA

2.2.1 LAND OWNERSHIP

Land ownership by foreign nationals has not existed in China since 1949 when all property was nationalized. This naturally means that "ownership" of a project is different in China than it would be in a country such as the US. Developers in China do not own the land which they build on or the buildings they construct. The typical "ownership" structure in China, is for the developer to

negotiate the rights to build and maintain control of the assets of a project for a duration specified in the agreement. At the end of the term of the contract, control of all assets usually passes on to the Chinese joint-venture partner. These contract terms vary from project to project with terms ranging from 8-25 years with a mean length of 15.6 years.

2.2.2 FINANCING

The availability for domestic financing of projects being done in China is very limited if not non-existent. First, the financial markets in China are currently under development. They are relatively unsophisticated and nothing like those of Western nations. In fact, until just recently no such thing as a mortgage even existed. Therefore, it is easy to see how the lack of financial instruments severely hampers the search for domestic financing. Second, even if the financial institutions and instruments did exist getting funds would still be a problem. The Chinese have experienced a severe shortage of foreign exchange during the 80's which has hampered their modernization objectives. Therefore, the leadership is very interested in the uses of forex. They have targetted certain industries which are to receive special consideration and real estate is not one of them.

Therefore, due to the lack of capital availability within China developers must look to outside sources to provide funds. The developer must still convince banks, insurance companies, or other potential investment institutions to invest in their China projects. For most projects, financing terms are similar to what they would be in the US. In a growing number of instances, however, large amounts of partnership equity are being included in the structure of several agreements.

Although investment in China is coming from many different places, HK still leads the way in real estate development funds with 42.05%. Japan and the US are second and third with 22.67% and 16.1% respectively. (Exhibit 6) It should be noted however that much of the investment noted in the HK figures may include subsidiaries of US, European, and Japanese MNCs or companies acting for investors of other countries.

Capital has been fairly available for development projects in China. The reasons for this are twofold. First, hotels and apartments are foreign exchange generating ventures, thus alleviating the problems of forex acquisition which plague many manufacturing joint-ventures. Second, there has been an obvious shortage of comfortable accommodations in most of China's cities. Therefore, investors have not been concerned about high vacancy rates and overbuilding believing that once completed the project would provide a guaranteed return. In the final analysis, this means that the financing arrangements for most real estate development projects in China are not much different than a typical US project.

2.2.3 DESIGN AND CONSTRUCTION

The areas of design and construction have undergone considerable change during the past decade. The structure and the sophistication of the fields has changed as has the involvement of foreign firms. These changes have not only altered the type of involvement of foreign firms but have also changed the key success factor for operating in the Chinese market.

2.2.3.1 Pre-Reform

In the pre-reform era of the PRC developers didn't really exist. Since all capital assets were owned by the state and all construction was controlled by state ministries the government was the only developer in the country. The Chinese government also served as the only financier. The government was not only the developer of the project but also the buyer as well as the supplier of all inputs such as labor, materials, and equipment as well. This structure meant that the government had a great deal of power over every aspect of the building process.

The design and construction process for domestic buildings in China was nothing like the process in Western countries. The coordination of trades was minimal if not non-existent. Design and construction would progress one trade at a time. The structure and enclosure was designed and built and then the remainder of the trades did their work one at a time. Plumbing contractors came in and made holes where necessary to complete their work and then patched

them up and left. They would be followed by mechanical contractors who did the same thing. This process continued until all of the work was completed. While this alleviated problems of scheduling and coordination among various trades it took its toll on the building. A good example is the Yanjing hotel which already looked ten years old when it was completed.

Technology and product limitations also had a limiting effect on the design capabilities of Chinese architects and engineers and the skills of construction workers and contractors. Due to scarcity of new materials and advanced technologies, the Chinese building industry was still very much rooted in masonry construction techniques. Therefore, the abilities of Chinese designers to deal with more advanced materials and construction techniques was severely hampered, merely because of a lack of exposure. This had a corresponding effect in the construction field. Since designers were not specifying new materials contractors weren't using them. This meant that contractors and construction workers were not well versed in the use of new materials and techniques either. Basically, no one saw any incentive or need to advance beyond their present skill level and so no progress was achieved.

Labor was traditionally a source of tremendous inefficiencies in the construction industry just as it was in others. Due to the nature of the socialist system with fixed wages and guaranteed employment, there were no incentives for workers to be productive. The problems with productivity were further aggravated by the fact that the Chinese Labor Bureau assigned workers to projects and tasks and the firm had no say whatsoever in these appointments. Therefore, laborers often ended up doing tasks for which they were unskilled or unqualified.

Materials availability was also a major problem within the traditional structure. Within the traditional command economy many materials were centrally allocated. This method of sourcing often proved inadequate either in terms of insufficient quantity or or unacceptable quality of materials. These problems often translated into costly project delays over which the firm had no control.

The design and construction process was not the only difference between Chinese and Western buildings. The standards were also quite different. The standards were far below what Western designers and builders would consider as minimum. The experience of a US businessman is indicative of the differences. The businessman was utilizing office space Beijing in a building which had no heat (this in itself would not be allowed by US standards.) Winters in Beijing can be very cold and so they plugged in three electric heaters in their office. The extra load on the electric circuits blew the electricity for the entire building. As it turned out circuit breakers were not required or standard in all buildings. This simply illustrates the types of differences which might be encountered.

This is the environment in which foreign firms attempted to do business. Since the government was the only source of business, companies were forced to deal with the bureaucracy or ignore the market. The means of acquiring work was through competitive bidding and foreign firms were supposed to supply everything except the koolie labor. In this market low price and skillful project management were the keys to success.

2.2.3.2 Post-Reform

In the post-reform era this structure has changed considerably. The government is no longer the sole developer. The reforms have opened the way for foreign developers, and several are currently doing projects in China. The increase in the number of foreign firms with operations in China supplies the market with several potential buyers and the relaxation of centralized economic controls means that there are numerous suppliers for materials both domestically and abroad.

The government is still a major player but in a much different way. They are much less involved in the day to day specifics of each project but are still very concerned with the overall development of the country. The method by which they retain control is the joint-venture regulations. They monitor adherence to the regulations and have final approval over all contracts. They can deny approval

and frequently become involved in the contract negotiations themselves. This set-up means that there is much less interference in the actual project itself but much more attention is paid to the initial negotiations.

The reforms have also removed many of the problems and limitations that companies faced. Now, foreign firms are officially allowed to hire and fire employees and differentiation of wages and providing material incentives is being permitted. These changes have encouraged a shift in the attitude of the work force. Some firms have found the Chinese workers more conscientious and eager to learn and productivity has been on the rise. The quality of work has also improved dramatically over this period spurred by the increase in incentives and by the advancements in technological capabilities.

As a means of addressing the problems of material acquisition and allocation the official policy has been to move away from central allocation toward simply requiring indigenous sourcing. The policy has permitted direct contact between foreign contractors and domestic suppliers. This has led to the involvement of contractors in shop inspections and in qualifying vendors and has translated into an increase in the variety and an improvement in the quality of materials.

The recent construction boom has encouraged an even further relaxation of domestic sourcing policy. The boom has caused a shortage of domestically available materials. With materials suppliers already operating at full capacity the government is now allowing several firms to import large amounts of materials from foreign suppliers.

Equipment sourcing has experienced a similar change in policy. Projects often experienced delays due to problems with centrally allocating equipment. Presently, equipment that is not available within the country is often being shipped in. One stipulation that some firms are experiencing, however, is that the equipment must be shipped out at the completion of the project.

The methods of acquiring business have also changed. Due to the increasing amounts of foreign investment in real estate, an ever increasing amount of work is being gained through developers. Since the Chinese are so eager for foreign investment it is now quite common for developers/investors to specify their design

and construction firm. This indicates a shift in the market which is opening new opportunities for firms as well as a change in project relationships and dynamics. Construction firms are now providing a piece of the puzzle which must fit into a much larger proposal package.

Accompanying this change in industry structure has been a change in the means of acquiring contracts. Because of the interest in technology transfer and the joint-venture regulations, negotiation has to a large extent replaced bidding and the negotiating in increasingly occurring along two fronts. There are the government sponsored capital construction projects, in which the negotiations are similar to the ones described previously and projects undertaken by foreign developers, in which the negotiations follow common western practices.

In addition to a change in the means of acquiring contracts the type of services provided has also changed. With the transfer of skills that has taken place the foreign partners involvement has been reduced to basic engineering, off-shore procurement, overall project management, and training of Chinese engineers. The Chinese have even begun to enter into joint-ventures with firms for projects in third countries. Although to date they have only been subcontracting labor, this is indicative of the advances the construction industry in China has achieved.

2.4 NEGOTIATIONS

The most important characteristic of the development process in China today is the amount and nature of negotiations which are involved. Success in initial negotiations is often the key to a project's success and the negotiations are far from what Westerners consider as typical.

Western negotiations are "results" oriented. Reaching a final contract which is acceptable to both sides as quickly as possible is the objective. Once the contract has been signed it is assumed that each partner will live and act within the spirit of the contract. If either one doesn't then the courts have the authority to settle the dispute.

Chinese negotiations are more "process" oriented. The Chinese are tough negotiators and the duration of the negotiations can seem like an eternity.

"Western businessmen often find contract negotiations in China to be a traumatic, stressful endurance test. The Chinese see negotiations as a means of testing the oppositions resolve." Therefore, the Chinese are probably encouraged by long, trying negotiations.

In conjunction with the different philosophies about negotiations, the "rules" of negotiations are also quite different. To begin with the schedule for negotiations is not mutually agreed upon. From the moment of arrival in China the Chinese control the schedule. While a foreign executive may be ready to start negotiating right away it may take some time before negotiations actually begin. The Chinese like to keep their adversaries off guard and may take you on a couple days of sightseeing trips before getting down to business. This uncertainty of schedule is a typical technique which the Chinese use to keep their opponents off-balance.

Once negotiations actually begin the process and forum for negotiating are also unique. The Chinese continue to manipulate the schedule by having no planned breaks and simply calling for one at a convenient moment. It is also not uncommon for Western negotiators to be outnumbered as much as 10-1. One reason for this is the large number of parties which must be involved from the Chinese side. Negotiations include not only the joint-venture partner but representatives from the appropriate ministry(ies) as well as the final end user. This of course complicates the negotiations because of the multiplicity of agendas. A second, and probably more important, reason for the large number of "observers" is for reporting what is taking place up the appropriate channels. This aspect has direct correlation to the duration of negotiations because it is important for the Chinese to show their superiors that they are shrewd negotiators and therefore it is not necessarily in their best interest to conclude a deal quickly.

Perhaps the most frustrating part of the entire process is that in the end you still do not have a finalized "contract" in the Western sense of the word. Chinese negotiations often involve understanding and intentions not spelled out in the final contract. These expectations may surface at any point and are often phrased as "based on our friendship and mutual understanding, could you"1 Often

these requests have nothing at all to do with the contract terms at all. So even when things seem finalized, in reality they are continually in negotiations until the project is actually completed and payment is received.

CHAPTER THREE: THE MARKET

3.1 MARKET CONDITIONS

The expense and hassle of doing business in China is tremendous. Beyond the mere problems of being away from home and the lengthy and trying negotiations, Western representatives must deal with inadequate living and working conditions. Several firms have actually decided to maintain their registration but to wait to actually open offices until conditions improve. The problems go far beyond just expense. There is simply a severe lack of available facilities to suit the lifestyles of foreign representatives.

Housing and apartment space, not to mention office space, is virtually unheard of. The vast majority of foreign representatives live and work out of hotel rooms. This space is also virtually impossible to find due to the substantial growth in the tourist industry. Even when rooms are available these spaces are cramped and inadequate for companies needs. Firms often spend a good deal of time modifying hotel rooms to suit their purposes.

The telecommunications system is a disaster. In order to avoid hotel switchboards, which are often busy, firms must install direct phone lines and the waiting list is long. (70,000 applicants in Shanghai at the end of 1986.)¹

Office equipment and supplies are scarce and usually imported with duties of 30-100%.² Computers and word processing are non-existent and photocopying is only available at the major hotels. Secretaries, translators, and drivers are also in very short supply.

Many goods that Westerners desire are unavailable. Shampoo, for example, can be very difficult to find. Although the textile industry is of major importance to the Chinese economy, western style clothes are not readily available. Restaurants serving western foods are few and far between and supplies of these foods are inconsistent and difficult to find. Many foreigners in Guangzhou have resorted to periodically going to Hong Kong to shop for food and other goods, encountering customs duties as high as 100% of purchase price when bringing items back into China.³

Recreational and educational facilities are in short supply as well. The International Club in Shanghai is one of the few exceptions boasting an outdoor pool, tennis, and bowling.⁴ Educationally foreign-language schooling is not readily available. While there is an American School of Guangzhou and another in Shanghai, this is not near enough to alleviate the demand. Foreign language entertainment is also very difficult to find and although the major hotels have promised to help in this area but as of now little effort has eally been made.

The need for development which addresses these conditions is apparent. Firms are certainly experiencing problemns and facing constraints which more and better facilities could alleviate. Many companies will only consider sending executives without children to avoid the problem of schooling. Among businessmen, depression and burnout are a major problem. These problems could be addressed with more development for foreign nationals.

3.2 QUANTIFICATION OF DEMAND

There can be little doubt that demand exists for additional space in China. The fact that foreign nationals are paying \$72,000/year for a 1000 sq. ft. apartment in Beijing indicates that there is a large pent-up demand, even in a city that has already experienced a large amount of foreign investment in real estate.

Demand, both at the present time and in the near future, seems to be concentrated in Beijing/Tianjin, Shanghai, and Guangzhou. While demand in secondary locations, such as the coastal cities and smaller industrial cities, would appear to be a few years (and a few reforms) away.

Demand for space is a function not only of the volume of foreign business activity in the country but also of the volume of tourists who are competing for this space. Since tourist business is more lucrative many hotels have not permitted companies to rent space preferring if need be to keep rooms vacant in the short-run to capitalize on the tourist trade. This makes space scarcer and more expensive. Exhibit 7 gives tourism figures since 1980. These numbers seem to indicate that the tourist market has peaked and is now experiencing a declining rate of growth. If this decline continues then the projections for 1988-90 would be

as shown in these exhibits. If correct this would indicate less competition from the tourist industry for available space.

Demand from the business community is much more difficult to determine. Figures are not available for the number of businessmen or foreign companies in China over the past ten years. Therefore, attempting to link demand from foreign executives to the amount of foreign business activity would seem appropriate. Unfortunately, the economic data does not indicate any general trends. Instead, the high growth rates between 1984 and 1985 indicate that shifts in China's economic policy are the major determinants of growth. Therefore, projections of business demand need to be tied to predictions about future economic policy decisions and are thus related to the political stability of the country.

3.3 QUANTIFICATION OF SUPPLY

At the present time China is undergoing a major building boom spurred by the surge into China following the introduction of the open door policy in 1980. Exhibit 8 gives an indication of the amount of activity involving foreign investment which is currently underway. Obviously responding to demand, there has been a major concentration of activity in the Beijing/Tianjin, Shanghai, and Guangzhou/Shenzhen regions.

The amount of development in these three areas accounts for more than two-thirds of all the foreign invested real estate development in the country. By the end of the decade, Beijing/Tianjin and Shanghai are expected to add 15-20,000 hotel rooms each. Guangzhou/Shenzhen officials are anticipating over 10,000 additional rooms. The rest of China is predicting completion of approximately 15,000 rooms. Therefore, we see a close correlation between concentration of demand and proposed supply.

3.4 CUSTOMER PROFILE

There are two strategies which companies use in doing business in China which divide them into two very different groups with differing needs. There are companies which send representatives to China for short durations of time (1-2

weeks) when needed. For these companies hotels are probably the most cost effective means of housing their employees. However, the vast majority of companies have representatives in China for much longer durations of time. The needs of this group for housing, office space, recreation, food, clothes, etc. are far different. This is the group that the proposed project is targetted to serve. Data indicates that these companies make up approxiamatley 60% of the companies currently doing business in China.

In general, these companies can be divided into two groups. Those who began operations in China in the 1980-81 time period and those who opened offices between 1985-86. There are slight differences between these two groups which could be important. The companies which entered during the earlier time frame seem to be more happy with their living and working conditions than the companies which entered later. Overall, they rate their space better on quality and price.

The typical company has roughly 2.7 representatives who currently do business in China. On average, the companies also intend to increase representation by 50% by 1990. Beijing is without a doubt the number one city for doing business both now and in the forseable future. Shanghai appears to be second, followed by Tianjin and Guangzhou.

Most company representatives live in hotels with a very few actually renting apartments. The reason is definately lack of alternatives rather than choice. Most companies rent this space on a long-term basis receiving some cost reductions. The average long-term customer rents roughly 1000 square feet of space. Prices vary drastically ranging anywhere from \$5/sq. ft./year to \$85/sq. ft./year.

The consensus is that overall living conditions are below average. Availability of recreational facilities ranks lowest on everyones scale. Availability of space, price, and food rank cosiderably better but still below average. Representatives rank their living space highest on comfort, cleanliness, and accessability to the office but these ratings still do not reach 5 on a 1-7 scale.

Companies choose to rent additional space for offices rather than have their living space serve for both. The number one location is once again hotel rooms

with some firms locating there because of a lack of alternatives and others due to preference. Most space is still rented on a long term basis with the average firm renting 1000 square feet. Prices range from \$38/sq. ft./year to \$67/sq. ft./year. Overall, office space rates slightly higher than living space averaging 4.2 on a 7 point scale. Availability and cost are the two major problems while suitability rates just above average. Average ratings for services provided range between 4.4 and 5.0 with many firms supplying their own.

No matter what their current living and working conditions all the representatives agree that there is definitely a need for more adequate housing and office space. Over two-thirds would like to rent space in the proposed project. However, all of them also agree that they would not be willing to pay more than they are currently paying. Most representatives would hope to find such a project in either Beijing or Shanghai with Tianjin, Guangzhou, and a couple smaller coastal and industrial cities also which were mentioned. Quality office space with good telecommunications facilities would be an important consideration as would outdoor recreational facilities.

CHAPTER FOUR: ANALYSIS/CONCLUSIONS

4.1 THE MARKET

The popular belief is that the tourist boom in China has already experienced most of its growth and most economists project that growth rates will continue to decline. Thus, there will be a corresponding leveling out in the total number of tourists visiting China. The common projection is also that the current building boom will translate into a overbuilt market in Beijing, Shanghai, and Guangzhou by 1990. Even if this is true and there is a minimal increase in the size of the business market there will still be opportunities for projects similar to the one proposed.

First, the proposed project is different in nature than 92.5% of the projects now being undertaken. The vast majority of the projects currently underway are nothing more than hotels. They do provide additional space but it is more suited to the tourist and short term business traveler than the business executive who must eside in China for six months at a time. Apartment and office complexes represent a very small percentage of the development activity in the country. Of the projects which do fit this category, one or two may provide the additional amenities such as recreational facilities, stores, restaurants, and entertainment. This means that these new facilities really don't provide any additional services to business representatives that they don't already have. My survey responses indicate that if a project such as the one proposed were to exist then representatives would definitely be interested in switching from their present hotel locations. Therefore, I believe that even if the growth in demand does continue to slow down and the market does indeed become overbuilt, the differentiation of the project will lead to switching of location by foreign executives assuming a comparable price can be maintained.

Second, even if we assume that growth in market demand will be minimal, overbuilding will occur, and the product is not sufficiently differentiated to encourage switching, opportunities will still exist in secondary cities. As I have already stated, over two-thirds of all the development activity in China is occurring

in the Beijing/Tianjin, Shanghai, and Guangzhou/Shenzen regions. Therefore, whereas these three locations may indeed become overbuilt there are still several cities demonstrating encouraging signs of economic growth which I believe are ripe for potential increases in foreign business activity and thus are potential locations for development projects targetted at foreign executives. Potential areas for growth include the SEZs, the special coastal cities and some interior cities such as Nanjing, Wuhan, and Chonqing. Therefore, even if overbuilding does occur in the larger cities, secondary locations such as these should provide development opportunities, perhaps not in the next two or three years but certainly before the end of the century.

So far I have assumed that the projections of a decline in tourism will in fact happen and that increases in business activity will be minimal. However, I do not believe that this will actually happen because I feel that the popular analysis is flawed.

People are looking at the declining growth rate in tourism over the past two years and assuming that this indicates a levelling out of the tourist industry in China. I have a basic problem with this. I believe China has not yet reached its peak in tourist travel. Looking at the data for China, if tourism were to level out then the number of tourists visitng China would be roughly 35 million in 1990. Comparing this to data for other countries I simply believe that the 35 million figure is a considerable underestimation. The international tourist industry has been growing at a rapid rate with world travel is up 67% over the 1975-85 time period. There has also been a shift in the destination of travel away from Atlantic rim countries to Pacific rim countries. Therefore, I do not believe the drop in growth rate of tourist arrivals in China is the beginning of a continuing downward trend. It is merely a trough in a cycle.

I believe that the economic planning cycle of the PRC is effecting the tourist data. The planning cycle in China is 5 years long. Economic plans are generated every five years for each half decade. (ie. The sixth 5-year plan is for 1981-85 and the seventh plan is for 1986-90.) Due to the nature of the planning and implementation process investment also experiences a 5 year cycle based

roughly on a 1-2 year time lag from the beginning of the planning cycle. I think that the declining growth rate in the tourist industry is just an indication that there is pent-up demand. Basically, the growth rate in the number of tourists is dropping because there is a shortage of available space and as investment picks up in 1987-88 more projects will be completed and the growth rate will rebound. The test of this hypothesis will be in what happens with the 1988 tourist figures. In any case, if tourist growth should rebound then I would expect a fairly healthy market for continued development work even in cities such as Beijing and Shanghai.

CONCLUSION: The potential definitely exists for real estate development in the Chinese market.

4.2 THE INDUSTRY

Generally, the ability to successfully schedule, coordinate, and manage a project is the key determinant of its success. While these skills are still very important, managing the local and central government officials is the number one barrier to success in China.

The actual structure of the industry and sequencing of events are not drastically different in post-reform China than in the US. There is similarity in the multiplicity and types of players involved and other than putting a project team together a little earlier otherwise might occur the overall sequencing of the project is identical. The materials and construction techniques are slightly different but these factors can be accounted for up front in the planning, design, and scheduling of the project so that they do not present problems later on.

In addition, the Chinese government has also been rather amenable to real estate developers recently. The leadership realizes that foreign investment and technology transfer are necessary if China is ever to achieve its objectives. Developers provide both of these as well as increase the capital stock of the country. This has given developers a strong bargaining position and they have been able to convince the Chinese to relax constraints which have allowed them to operate even more normally than might otherwise be permitted.

However, as the reforms have made managing the project easier, negotiations have become tougher. I have already discussed the difference in negotiating style and philosophies. The idiosyncracies can be very frustrating and potentially misleading. Making sure that you really understand what you are agreeing to can be difficult and may mean the difference between success and failure.

The changes in the industry also mean that the amount and importance of negotiations has been increased. The switch from competitive bids to negotiated contracts means much more time and money is spent in trying to win the contract. Therefore, from the firm side there is increased incentive and necessity to make every negotiation pay off in a project. The importance of the negotiations has perhaps been elevated even more from the Chinese' perspective. The reforms have greatly reduced the ability of the government to control the inputs (labor, materials, and equipment) of a project. So, with the traditional means of control greatly limited, the state now has only the negotiating process to govern a project. Therefore, from the Chinese side the negotiations are also critical.

In addition to simply the initial negotiations, monitoring and maintaining relationships is also a central criteria for success. As history has shown, the Chinese political environment can be very volatile in nature. Factions and policies can change virtually overnight. The continual dynamics paired with the concentration of power in the party and the state means that potential interference is always an issue. Maintaining relationships and a strong negotiating position will lessen the threat of intervention. All of these conditions combined make strong negotiating the key success factor.

CONCLUSION: The initial explicit and on-going implicit negotiations are of primary importance in the completion of a successful project.

4.3 THE PRC

The "reformists" faction is a large coalition which at this point in time shows no signs of breaking up. In fact, the events of the recent Party and People's

Congresses would indicate that their support is growing even stronger. The reformists have a very broad based appeal because they represent a compromise position between the conservative and liberal positions. The coalition is supported by many of the economists and provincial first party secretaries not to mention the military, intellectuals, teachers, workers, and peasants. Since the reforms have appeal to such a large number of groups it will take a good deal of time for the groups to realign even if the reforms should go sour. Therefore, I expect the reforms continue and believe that a return to more centralist policies is out of the question.

The pace at which the reforms will take place is another issue altogether. The Chinese leadership has kept a very tight leash on the reforms trying to maintain control and limit problems such as forex expenditure and inflation. So far they have been very successful at holding back the tide. However, while the voice for slowing reforms gets more media exposure the voice for speeding up reforms is getting louder. The student demonstrations of 1987 are evidence of this growing sentiment. There also seems to be a growing base of support among the workers and the peasants as well.

The pace may also pick up because there is a snowball effect in enacting reforms. As one gets passed two others need to be passed in order to make the first one effective. The ability of the leadership to hold back the reforms while still appeasing the masses is a delicate balance to maintain and will determine the speed at which the reforms evolve.

An important factor in this balancing process is the power of the CCP. At the present time, the power of the Party over the country appears to be diminishing slightly. This is partially due to a timing issue. The ranking cadres in the Party are becoming old and there is currently an attempt to transfer key positions to the next generation of cadre taking place. So far the transition has been very smooth but the power of the Party is suffering. This can be evidenced by looking at the Party and state offices that the members of the new Politburo hold. While the Standing Committee still holds the top positions in both structures, they do not have the broad base within the Party or state structure that their predecessors exhibited.

The other members of the Politburo also hold inferior positions to their predecessors. It is unclear whether this represents an intentional move by the Party to separate the two structures but at the minimum it translates into a lesser hold over the economy in the short run.

Another cause of the reduction in power is the actual reforms themselves. As the leadership enacts reforms granting more freedoms, their means of control over enterprises diminishes. This means that the reforms would need to be rescinded if control is to be regained. This is unlikely because of the success and support of the reforms.

An interesting aspect of this reduction in state control is the corresponding reduction in Party control as well. The Party has traditionally maintained control over workers through Party cadre placed at each enterprise. The reforms have removed these cadre from their positions thus eliminating the Party's line of direct access to the people. This means that they will need to find another avenue of reaching the masses. Because of the lack of formalized institutions the only possibility at this time seems to somehow penetrate the family structure. This will prove very difficult because of the importance of family in the culture.

CONCLUSION: Economic and legal reforms will continue, perhaps at an accelerated pace. Political reforms will also start to supplement the administrative reforms already underway and the Chinese Communist Party may potentially lose their dominant position in the country.

4.4 OVERALL ASSESSMENT

The structure of the development industry provides the freedom needed to deal with the idiosyncracies of working in China. The culture of development is to take risks. The project orientation of the business allows a developer to take these risks while limiting his exposure. Thus developers are often willing and able to accept higher levels of risk than other businesses.

The project orientation and site specific nature of the product gives the developer experience in dealing with ever changing relationships on every

project and product adaptation for each location. This framework provides flexibility which allows a developer to quickly adapt his team or product to suit local requirements. These capabilities of flexibility and adaptation are essential if a company hopes to succeed in China.

Second, few companies can align their own interests so completely with the objectives of the Chinese leadership. The goals and the process of China's "four modernizations" compliment the objectives of a foreign developer. The Chinese leadership, while actively promoting reforms, is very cautious about the pace at which they should take place. They favor slow and steady growth in an attempt to keep things from growing beyond their control. This often creates a pent-up demand for goods and services. To a developer this is like money in the bank because it means that his building will be fully occupied and that he can charge higher rates due to the pent-up demand.

The modernizations are to be achieved with increased foreign investment and technology transfer. These are two things which a foreign developer is happy to provide. A developer would much rather deal with the certainties of Western financial institutions than the uncertainty of the Chinese financial system. A developer would also prefer to work with more sophisticated Western architects, engineers, and contractors because they are more likely to understand his objectives and have the capabilities to manage his project successfully.

Finally, a major concern among the Chinese is the generation of foreign exchange. This is essential if the economy is to progress and the modernizations are to succeed. However, China is forever fighting a shortage of foreign exchange. Encouraging real estate development is a good way to earn foreign exchange because when land or space is leased to foreign nationals it ensures a steady stream of foreign exchange for whatever the duration of the lease.

CONCLUSION: Few companies could move into China as quickly and as easily as a real estate developer.

CHAPTER FIVE: THE NEXT STEP

5.1 THE MARKET

After nine months of researching the People's Republic of China I have selected 5 cities which I would select for further analysis. Since location is everything in development these five cities were chosen 1) for their economic base, 2) perhaps more importantly, for what I believe are their strategic locations within the country.

Nanjing is a city of approximately 2,250,000 located in Jiangsu province about 150 miles WNW of Shanghai. It has a strong industrial base providing a source of relatively skilled labor which should appeal to foreign manufacturing firms. It's location is also ideal. The experience of the Beijing/Tianjin, Guangzhou/Shenzhen regions indicate that there is a piggyback effect of an established business center encouraging the development of a nearby city. As Shanghai continues to become more overcrowded and expensive its proximity should have spillover effects. The location of Nanjing is also good from a transportation standpoint. It is a relatively short distance from the ports of Shanghai. It is on one of the rail lines leading to Shanghai. It is also located on the Yangtze River which provides access not only to Shanghai but also to the interior of the country. This combination of site and industrial base should attract foreign investment in manufacturing.

Wuhan is centrally located with respect to the economic activity and development of the country. It is located in Hubei province. It too has an industrial base but is most important for its strategic location at a crossroads for several means of transportation. First, Wuhan is on the Yangtze river which extends from Nanjing and Shanghai to the east to Chongqing to the west. Second, it is an important crossroads for roads leading toward Beijing, Shanghai, Guangzhou, Chongqing, and Xian. Third, It is the major intersection for the Shanghai-Chongqing and Beijing-Guangzhou rail routes. Therefore, Wuhan provides a variety of transportation alternatives and access to all parts of the country. As China continues to open its consumer markets Wuhan's importance

as a transportation hub will become increasingly important and it should attract firms looking for a location for centralized sourcing and distribution throughout the country.

Chongqing is a city of 2,780,000 located in Sichuan province. Sichuan province is extremely important as the bread basket of the country. It was also a primary region of development during the Maoist era as a "second front" location. Although not the capital of the province it is certainly an economic center for the area. It too is situated along the banks of the Yangtze about 500 miles from Wuhan and 1000 miles from the ocean and the ports of Shanghai. It is a potentially attractive location not only because of its importance to Sichuan and its links to the east but also for its positioning in the extreme interior of the country. Although still about 1000 miles from Lhasa, the capital of Tibet, it is one of the "developed" cities located furthest west. As such, it is an ideal staging area and jumping off point for destinations further west and could serve as a strategic location for channelling goods from western provinces back to the eastern ports.

Dalian and Fuzhou are similar in that they are both east coast ports. Dalian is located to the north in the highly industrialized province of Liaoning. Its positioning on the coast where the Yellow Sea meets Bo Hai makes it a strategically important location. It is already an important port for the import of materials to and the export of products from the manufacturers in the province and continued growth in the manufacturing capabilities of the northeast will boost its importance. Fuzhou is located about midway between Shanghai and Guangzhou in Fujian province. It is important because of its location immediately across the Formosa Strait from Taiwan. I believe that Fuzhou will show tremendous growth as the Taiwanese continue increasing their economic activity with the mainland. Although probably not the first site which might come to mind because of the existence of the Xiamen Special Economic Zone about 150 miles to the south, I feel that Fuzhou will develop further than Xiamen because of the isolation of Xiamen on an off-shore island.

In addition to these five cities, it will always be wise to keep an eye on Beijing, Shanghai, and Guangzhou for future possibilities. One final area which should

also be watched closely is Hainan island of Guangdong province. The Chinese have announced plans to make the entire island an SEZ. While at this point in time the idea seems like an overly ambitious undertaking, it could prove more reasonable in the future if the reforms continue and may be a future boom for real estate development.

Any specific analysis for these various cities would be structured along the same lines as this paper but on a more localized scale. It would be important to assess the political-state structure from the provincial party first secretary on down. Analyzing the local industry structure and defining what materials, equipment, and labor are available and who the better contractors are and what skills are available would also be an important task. Of course, attempting to quantify demand and supply will always be an important task in determining the feasibility of any project. An analysis which proceeds along these lines should provide the necessary specificity to make a final analysis about the feasibility of a specific project proposal.

5.2 THE INDUSTRY

5.2.1 SKILLS ENHANCEMENT

As I concluded in the previous chapter, the key success factor for doing business in China is the ability to negotiate. Therefore, I suggest that the very first step that any businessman in any industry take when planning on doing business in China is prepare to negotiate.

One, learn as much as possible about the Chinese negotiations. I would suggest that a good place to start would be to read a translation of The Art of War by the Chinese philosopher Sun Tzu. Although written about conducting war during the period of the warring states in China it has significant relevance. If read with a business attitude or perspective it is very enlightening into the thought process of the Chinese and will be helpful in understanding the philosophy behind the actual negotiations.

Two, know yourself, your strengths and more importantly your weaknesses, and prepare. Having read the book select your team wisely. Get your team together and practice your negotiating techniques. Decide what tact you are going to take and who is going to play what roles. You may even wish to adopt some of Sun Tzu's tactics as well. Expect the unexpected and plan how you are going to deal with it. Know ahead of time that the negotiations will be frustrating and maintain control no matter what happens. Be respectful yet prepare like you are going into battle because the Chinese certainly will. After reading the book you will understand more fully how important all of this will be. Remember, the initial negotiations can determine the success or failure of an entire project.

5.2.2 SHORT TERM PLAN

In the short term I would look to establish a strong development team which would definitely include a developer, a financeer, and a contractor and potentially include a designer as well. This team would be made up of foreign nationals probably not of the same country. I believe this kind of diversity could provide a flexibility which may come in handy at some point in time. I would plan on having a Hong Kong financeer, a Japanese or Korean contractor, and a European or American design firm. Assuming the other parties agree I would form a partnership with the other companies. A partnership gives each party incentive to make sure that not just their individual piece of the project works but that the project as a whole is successful and they will work together to achieve this end. From the developer's standpoint the partnership will diminish much of the risk that he must take. Everyone can be given equity in the project and this can release the developer from much of his indebtedness to the other parties.

In establishing this partnership you naturally look for experience. However, finding companies with experience in the PRC can be extremely difficult. Therefore, the next best thing is to look for companies that have experience in Malaysia, Indonesia, or other South-East Asian countries. If even this is difficult, look around. There are plenty of companies still trying to get into China. Take a close look at these firms and evaluate which ones have really done their

homework and which ones are simply trying to get into the market because it is the thing to do. Many companies haven't really prepared themselves for actually doing business in China and these companies will probably experience severe problems. Having selected your team and assuming you have what you believe is a viable project then approach the Chinese officials with your proposal.

5.2.3 LONG TERM PLAN

I believe that there will be a significant change in the domestic construction industry. The Chinese are very eager to learn and with every joint venture project they collect more and more skills and information. As one American contractor put it, "they vacuum clean your files." For the time being the Chinese contractors will continue to supply basically labor and domestic sourcing of materials and equipment to the best of their abilities. However, as they gain more knowledge and skills the foreign firms will become less important.

The key for foreign firms then is to attempt to maintain a technology gap between themselves and the Chinese firms. If they are able to accomplish this they will be able to maintain their advantage and thus their attractiveness. However, based on the interviews that I have had I believe that many firms don't even realize that the problem potentially exists. Of the one's which do, few have developed a strategy for dealing with the issue. Therefore, I believe that the majority of firms will probably lose their technological edge.

When this time comes, I believe that the Chinese will enact new regulations requiring that at least domestic contractors and potentially designers be used for any project. This will require a change in the team structure to the use of Chinese companies. The developer has several options in this situation. 1) He could simply decide that he no longer wishes to do business in China and leave. 2) Realizing what could happen in the future he could spend some time and effort in the short term evaluating domestic firms and monitoring their progress. Then when the time came he would already have a knowledge base on which to base his selection. 3) The developer could try to use the same Chinese joint venture partners for all of his near term projects. This would allow the developer to

already have an established working relationship with a domestic firm when the new regulations are enacted. Therefore, his choice of domestic firms become easier and the effects of the change in the team can be minimized.

5.3 THE PEOPLE'S REPUBLIC OF CHINA

The political structure of the PRC and the CCP in particular still play a dominate role in the determination of the future direction of the country and the policies which they pass determine what will really occur in the market and the industry. The views that I have expressed are based on my evaluation of the Chinese environment at this point in time and the assumptions which I have made concerning future reforms. These actions may not necessarily take place. Therefore, it is always important to continually monitor the environment and update your projections and your corresponding strategy. An important piece of this is knowing who to watch and what to look for.

If I were trying to monitor the environment I would begin by keeping track of the reforms that are taking place very closely. They are being developed and changed very rapidly. This might create a tendency to only superficially monitor the activity because you might believe it is simply going to change again. However, there are often very subtle changes which take place (maybe even simple word changes) that often give clues to the direction that policies will be taking. Therefore, watch the changes closely and evaluate what each one may mean to your business.

Second, within the Party and state structure I believe that there is one group which carries a large amount of influence and should be watched closely. This group is the provincial party first secretaries. Their role is perhaps the most critical to the functioning of the entire Party-state system. These individuals are the link between the policy making at the central government level and the implementation in the provinces. Without these people the system would not work. Thus these individuals have large amounts of power due to their role. Therefore, I would watch this group and assess their feelings and ideas about

policy decisions because I believe they have great influence in determining the direction of continuing reforms.

As I stated earlier, the reformists are made up of a large coalition of interest groups which showed no signs of weakening. However, since this coalition is behind the reforms any breakdown among them would have significant impact on the pace of reforms. If a breakdown is going to occur I would look for it to come from the formation of a smaller coalition which would include the workers, the peasants, and the students. Although students were not defined earlier as an interest group in chapter one, the demonstrations of 1987 certainly illustrate the power that this group possesses. The students realize that they are one key to the success of the modernizations and could potentially influence many policy decisions. All of these groups are asking for an even quicker pace for reforms and if they should decide to unite they would certainly form a formidable team.

CHAPTER SIX: THE PITCH

The market is experiencing tremendous pent-up demand. Therefore, the potential exists for considerable market growth. But even if the market does become overbuilt I believe that this project would have the attributes necessary to generate substantial switching. There are several steps which I would take in tapping into this market. To begin, I would place advertisements in periodicals such as Business China and China Business Review to develop awareness of the project in the marketplace. I would supplement this with a direct mailing to companies which currently have operations in China. I would acquire the lists for this mailing from the various periodicals and from various country state and commerce departments. This mailing would provide a self-addressed card which could be returned to get further information. If the card is returned then the company would be sent an informational packet on the project and providing a number to call if they wished to speak with a leasing representative. In addition I would also try to have information distributed in hotels in China which are frequented by business travelers. If this is not permitted, I would rely on word of mouth. The network among foreign nationals in China is tightly knit and even if only a few representatives initially know about the project the word of mouth awareness that will be achieved should alleviate any problems. In any case, there would be a marketing and sales office in the city where the project is being constructed and I would hope to have a model unit built as well. The strategy will be to compete based on product differentiation. The proposed project is a more complete living environment than a standard hotel. Therefore, the message concept will be to push the various project attributes.

The financier is perhaps the most difficult of all the players to sell the project to. This makes sense since he is the one with the money on the line. These individuals are very tied to numbers and returns. Therefore, a risk/return analysis using realistic discount rates to account for doing business in China is probably the best way to sell them on the project. This means that the analysis of the local environment needs to be fairly specific and accurate. The projections should

estimate cash outflows based upon the costs of construction and the cash inflows based upon the projected absorption rate for the project. In the end, if the assumptions seem reasonable and the project looks profitable you will probably be able to persuade the financier.

The design and construction firms will probably be the easiest players to convince. These firms are traditionally just concerned with getting volume of business. However, it may be difficult to convince them to enter into a partnership. Traditionally, these firms like to take very few risks so convincing them to accept an equity position in a project may be difficult. The way to approach this may be to explain that although many firms have experienced some problems in their own previous dealings in China, a relationship through the developer should alleviate the problems. The firm no longer needs to worry about payment schedules or the form of payment. The developer also has a little better bargaining position since he is bringing in foreign investment capital so he is in a better position to persuade officials to allow outside sourcing and greater control over labor. In any case, even if the design or construction firm will not enter into a partnership you can still simply pay them on a normal project basis.

The Chinese government is not necessarily the hardest player to sell on the project but will certainly be the most difficult. First of all, knowing who you really need to speak with is extremely difficult. The institutions and processes are not well defined and finding your way through the maze can prove virtually impossible. The other primary problem is in knowing what the Chinese official's objectives are. This is often not clear and can change as one moves from one level of the structure to another. However, in the end I believe that because the developer is bringing in foreign investment, foreign technology, and increasing the capital stock of the country the officials will approve the project.

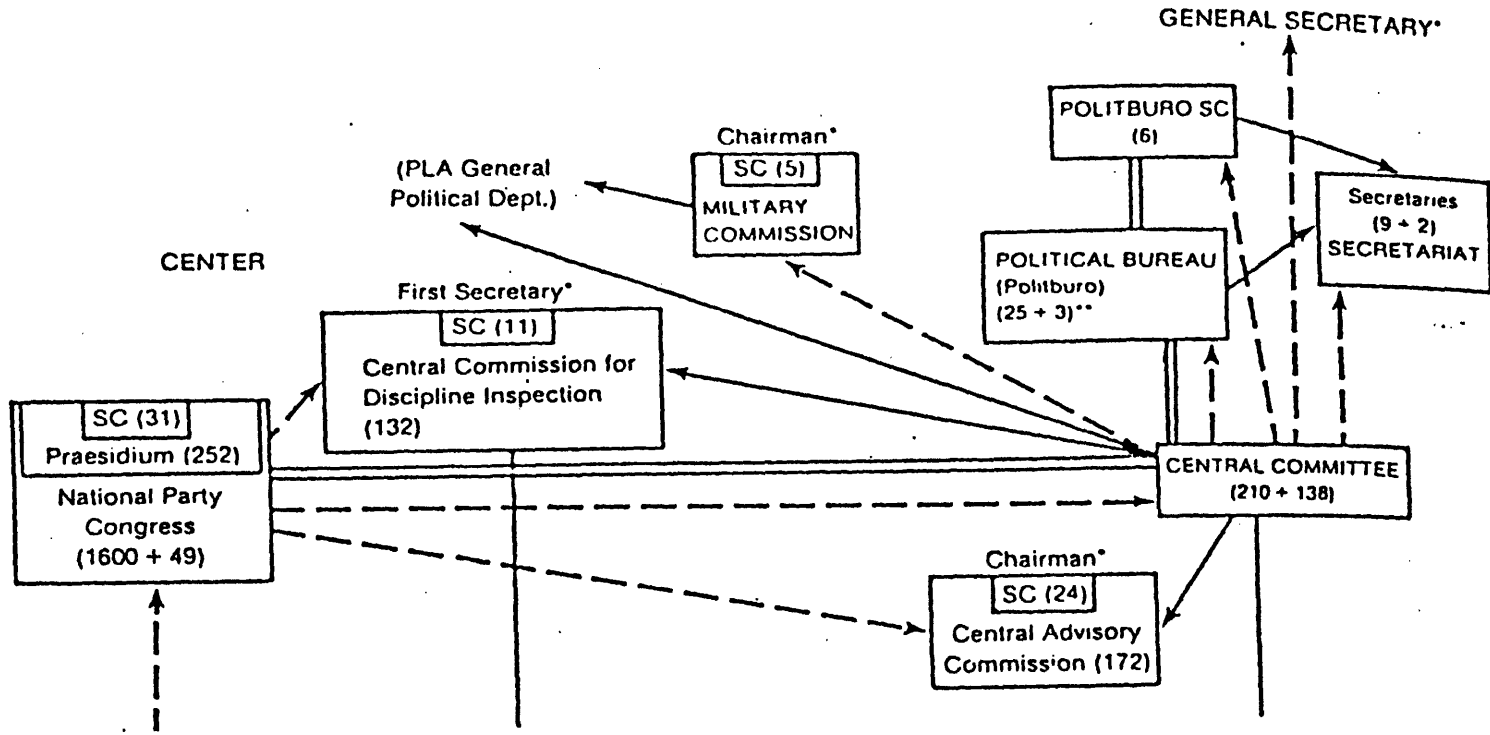
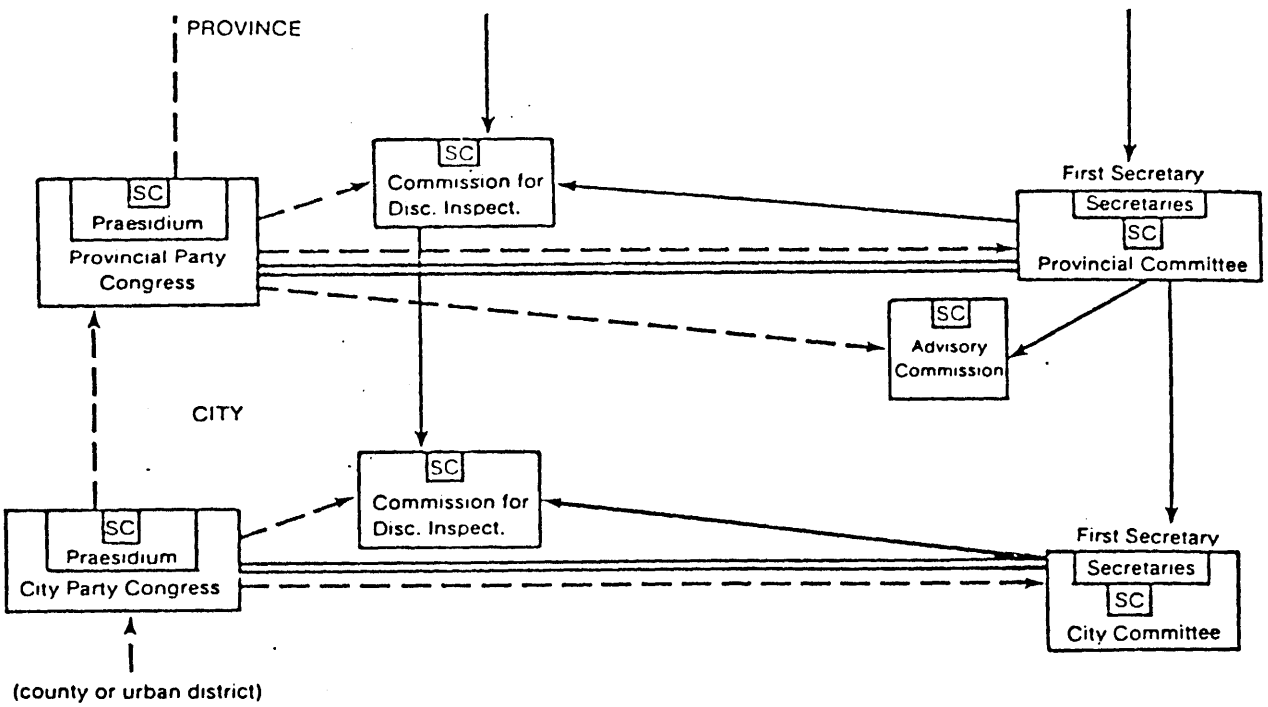


EXHIBIT 1: The Structure of the Chinese Communist Party

EXHIBIT 1: The Structure of the Chinese Communist Party (continued)



James R. Townsend and Brantly Womack, *Politics in China*. (Boston: Little, Brown and Company, 1986), 88.

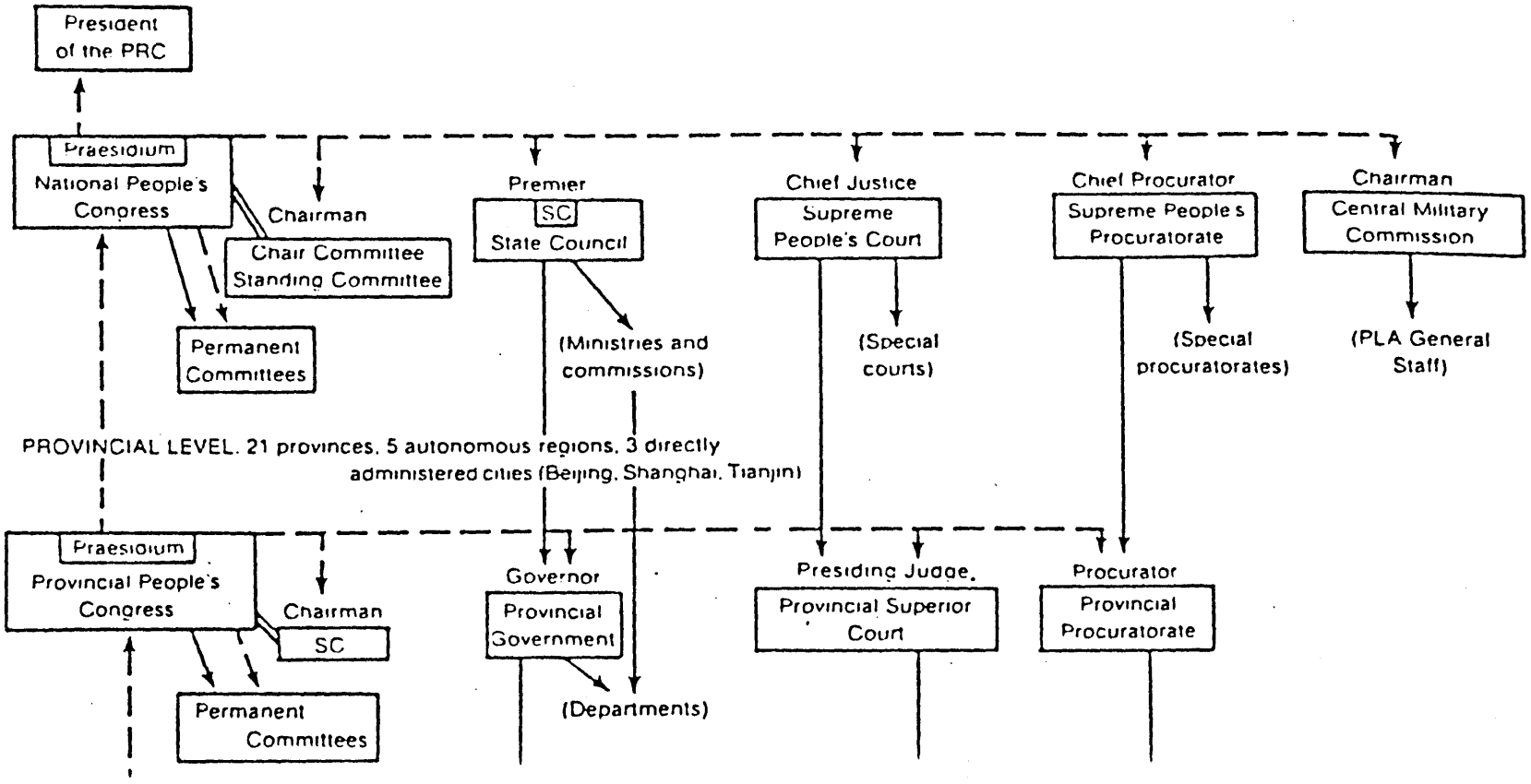
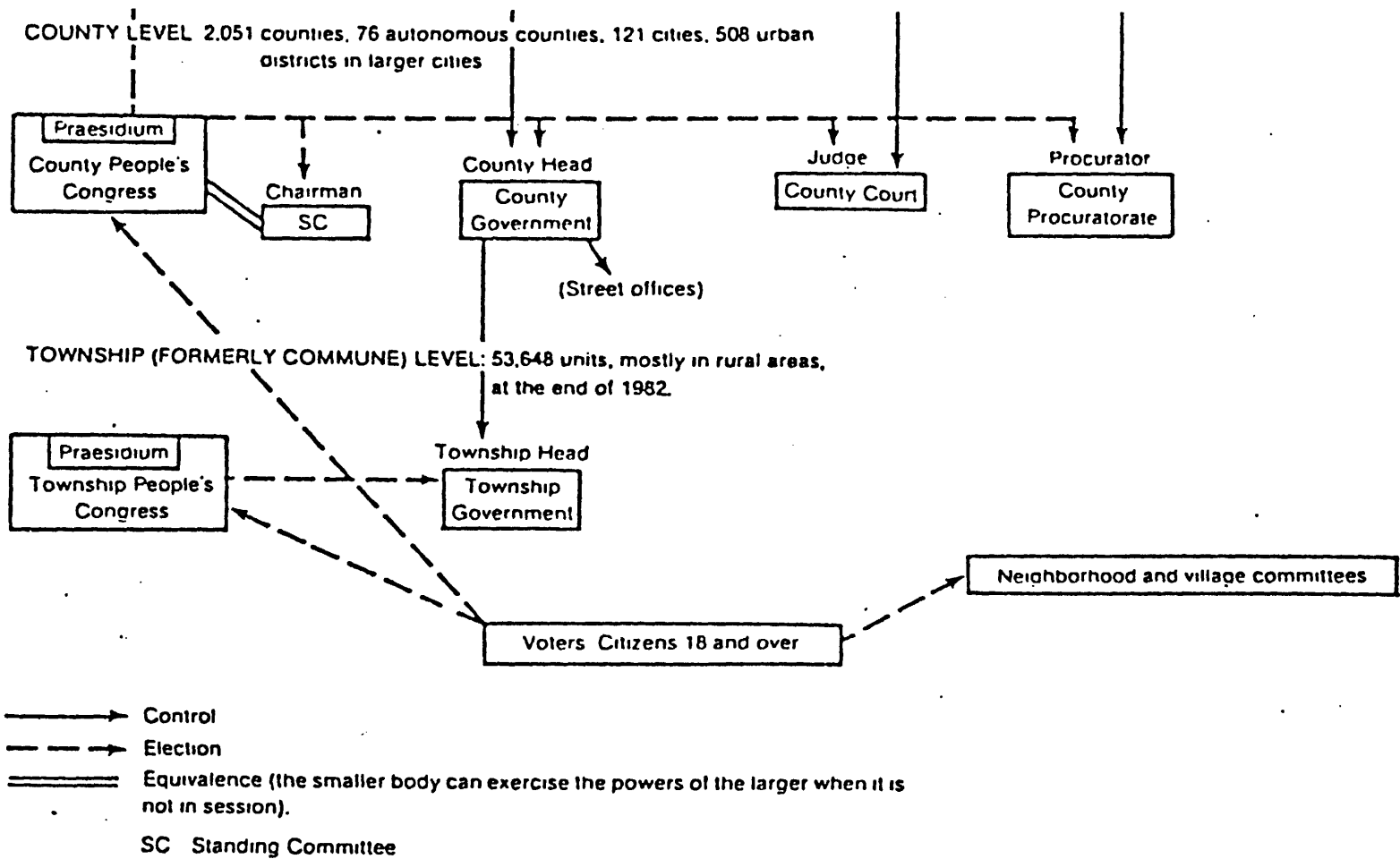


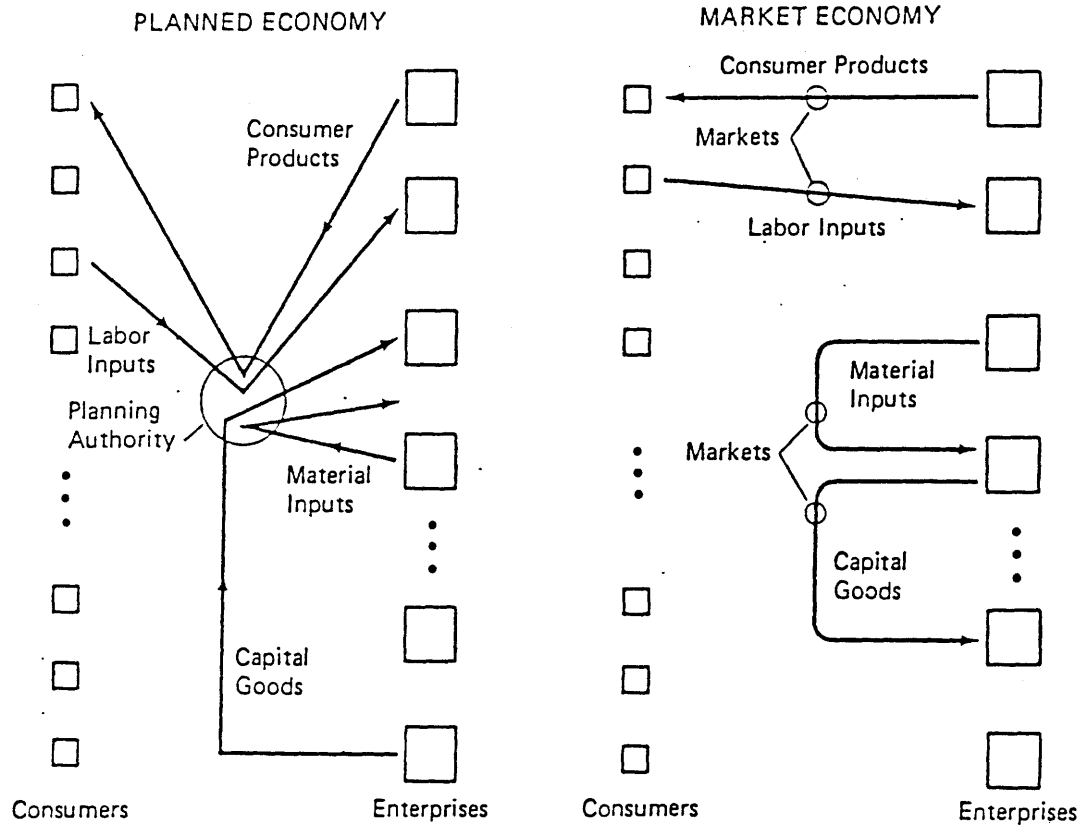
EXHIBIT 2: The State Structure of the People's Republic of China

EXHIBIT 2: The State Structure of the People's Republic of China (continued)



James R. Townsend and Brantly Womack, *Politics in China*. (Boston: Little, Brown and Company, 1986), 96.

EXHIBIT 3: Planned versus Market Economies



Gregory C. Chow, The Chinese Economy. (New York: Harper and Row, Publishers, 1985), 43.

EXHIBIT 4: Growth in the Agriculture Sector

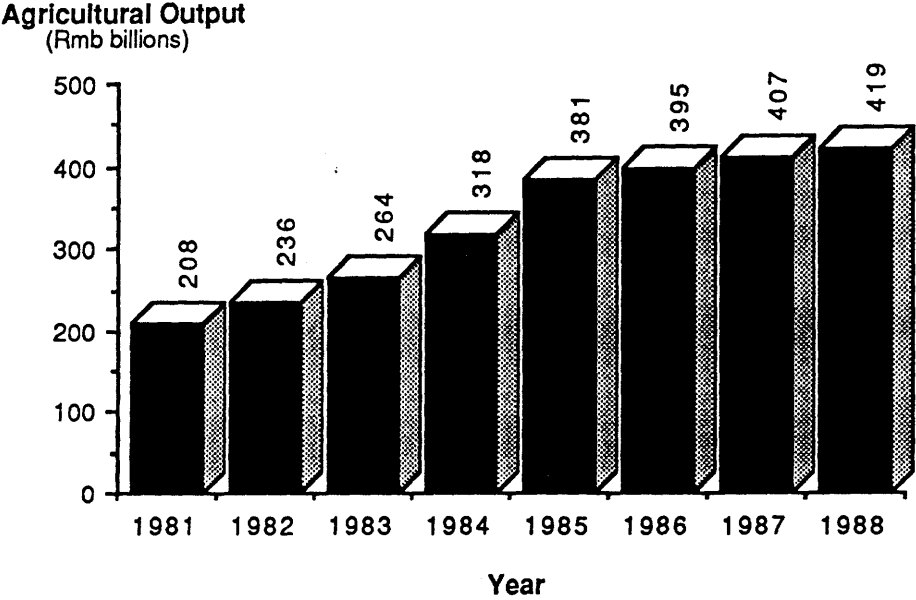


EXHIBIT 5: Value-Added Chain

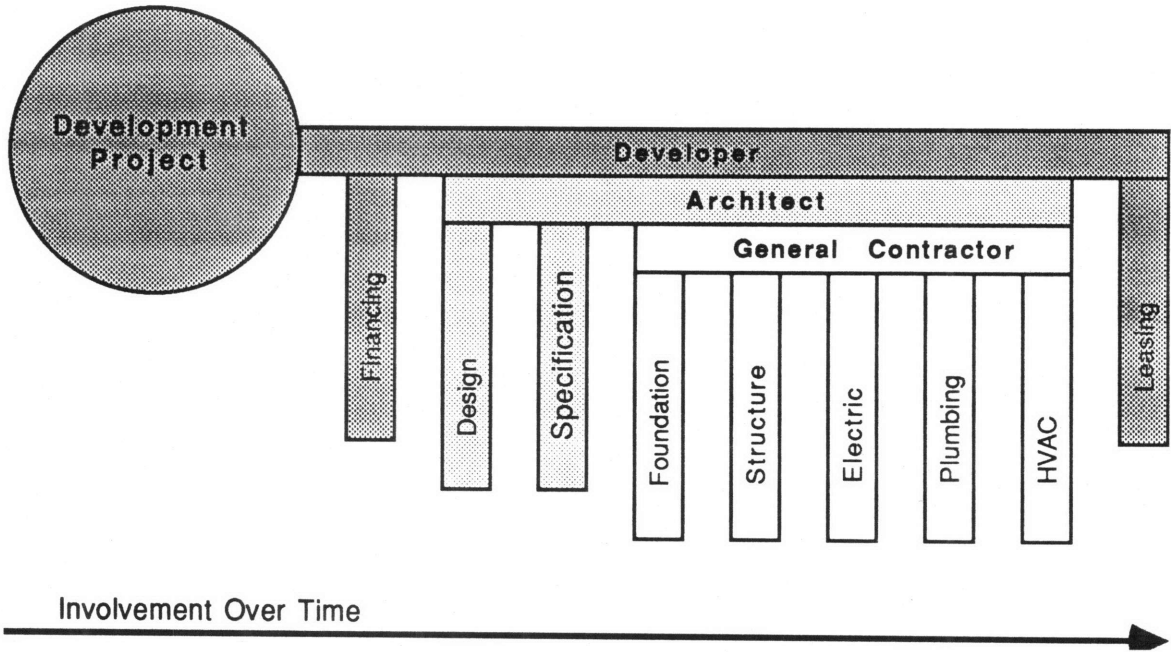
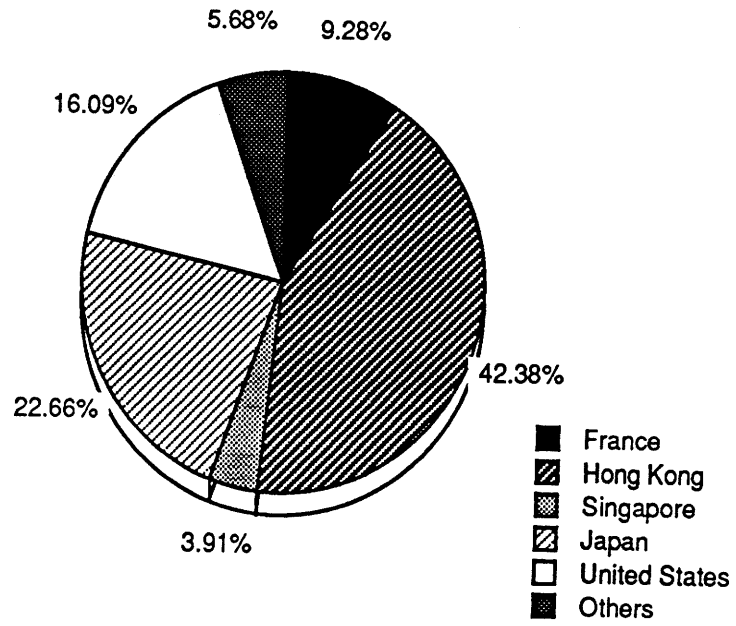


EXHIBIT 6: Sources of Foreign Investment



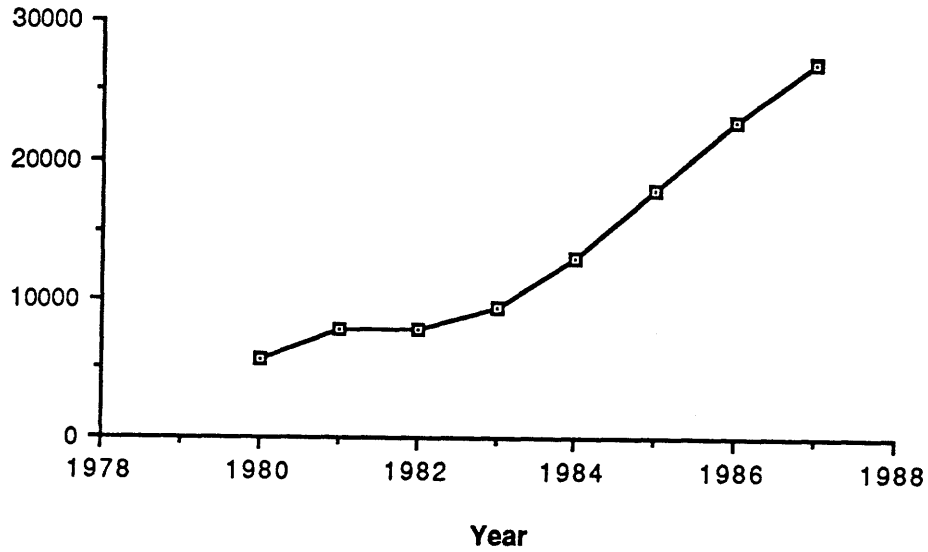
Calculated from data in Exhibit 8.

EXHIBIT 7: Tourism

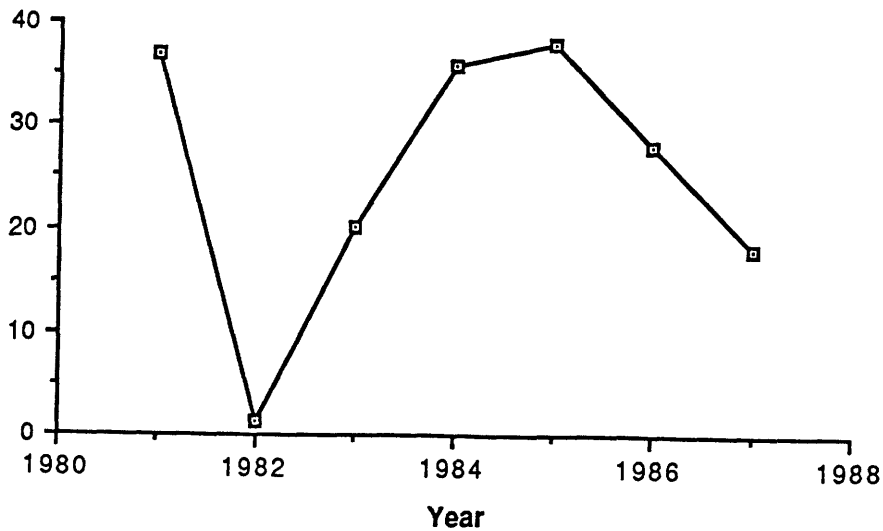
Number of Tourists Visiting the PRC (000's)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Overseas Chinese & residents of HK, Macau, and Taiwan	5,200	7,100	7,200	8,600	11,700	25,180
Others	<u>500</u>	<u>700</u>	<u>700</u>	<u>900</u>	<u>1,200</u>	<u>...</u>	<u>...</u>	<u>1,720</u>
Total	5,700	7,800	7,900	9,500	12,900	17,800	22,800	26,900

Number of Tourists (000's)



Growth Rate (%)



Project	Foreign investor/developer	PRC investor/developer	Investment*	Date	Size, other details
Beijing International Country Club	Expert Base Development Ltd of Hong Kong	Dragon and Clouds Ltd of Miyun county	15	1988 completion; July 1986 contract; 15-year term	Complex on 712 hectares 70 km north of Peking, with 200-room hotel, 80 apartments, 20 houses, sports, business, and conference facilities
Diaoyutai Hotel	Tian An (Peking) Investment Co of Hong Kong	Beijing Diaoyutai Economic Development Co	42	Sept. 1986 contract	To be located south of the Diaoyutai State Guest House
Liangmahe Tourist Center	Yan Kong Enterprises of Hong Kong	Beijing Travel Bureau	n.a.	n.a.	400-unit apartment building
Lido Holiday Inn Hotel (extension)	Yick Ho Co of Hong Kong	China International Travel Service	n.a.	Late 1986 completion	Two- and three-bedroom apartments
Longquan Hotel	Tak Wing Construction (Holding) Co of Hong Kong	Beijing Jinxi Economic Development Corp	12	1986 completion; Dec. 1985 contract; 15-year term	235-room villa; Tak Wing management in first seven years

Garden Villas	Al-Rayes Group Trading Co of Kuwait	Poly Technologies, China International Trust and Investment Co	70	End-1987 completion	389-unit residential villa on 227,000-sq-m site by Wenyu River
Guangming Apartments	Toko Shoji of Japan	Beijing Agriculture Administration	n.a.	n.a.	136-unit apartment/office complex
Huatai Apartments	Hua Tai Corp of Thailand	Nanmofang Agriculture Commerce Corp	n.a.	Early 1987 completion	126-unit apartment building
IBM Apartment Complex	IBM of the US	Beijing Farm Administration	n.a.	End-1986 completion	100 prefabricated houses with recreation facilities
International Hotel	n.a.	n.a.	n.a.	n.a.	Work under way
International Overseas Chinese Service Center	n.a.	Beijing Overseas Chinese Affairs Office	n.a.	n.a.	Project not yet finalized
International Village	M.W. Kellogg Co of the US	China National Technical Import Corp	n.a.	Late 1986 completion	150 single-family houses, 80 townhouses, and 250-unit apartment building
Jinguang Hotel	Kumagai Gumi Co of Japan	Shum Yip (Holdings) Co, Chaoyang District Huayang Development Corp	100	1988 completion; 15-year term	53-story, 500-room hotel/office complex; to be managed by New World Hotels International of Hong Kong

<u>Project</u>	<u>Foreign investor/developer</u>	<u>PRC investor/developer</u>	<u>Investment*</u>	<u>Date</u>	<u>Size, other details</u>
China Science and Technology Exchange Center	Noble Chong and Associated Co of Canada	China National Publication Import-Export Corp	40	Late 1986 completion	400-room hotel, 100-unit office, 100-unit apartment, and exhibition complex
China World Trade Center	Kerry Industrial Co of Hong Kong	China Foreign Economic Relations & Trade Consultant Corp (Consultec) of MOFERT	280	1987 first-phase completion; Dec. 1984 contract; 20-year term	1,100-room hotel, 450-unit office, 500-unit apartment, exhibition, and conference complex; whole project to be completed by 1990
Dadu Hotel (extention)	n.a.	n.a.	n.a.	Late 1987 completion	Construction under way
Dongzhimen Complex	Jardine Matheson Co of Hong Kong	Capital Iron & Steel Development Corp	n.a.	1987 completion	40 houses, 110-unit apartment and 38-unit office complex; work under way
Foreign Experts Apartments	n.a.	n.a.	n.a.	n.a.	200-unit apartment project; work under way

Olympic Hotel	Jiaxing (China) Investment Co of Hong Kong	China Sports Service Co	n.a.	1987 completion; May 1985 contract	11-story, 400-room hotel on 30,000-sq-m site; under construction by Mitsui Construction Co of Japan
Oriental Hotel	Scriven Trading of Hong Kong	Oriental Hotel Co	7	1984 contract; 10-year term	250-room hotel
Overseas Chinese International Hotel	Sino-America International Engineering (CAIE, a JV between Bechtel of the US and China National Coal Development Corp)	Capital Overseas Chinese Services Co	200	1987 completion	800-room hotel and 400-unit apartment/office complex on 36,000-sq-m site
Peace Hotel (extension)	Viobright International Investment of Hong Kong (subsidiary of Everbright Co)	Beijing Municipal Hotel Services Co	13	Late 1987 completion; July 1984 contract; 10-year term	300-room hotel
Sang Hee Hotel	Extra Wealth Investment Co of Hong Kong	Beijing East District Zhongxin Economic Development Co, Beijing International Trust & Investment Corp	15	Dec. 1984 contract; 14-year term	300-room hotel

*US\$ millions.

<u>Project</u>	<u>Foreign investor/developer</u>	<u>PRC investor/developer</u>	<u>Investment*</u>	<u>Date</u>	<u>Size, other details</u>
SAS Hotel	Skanska Co and SAS International Hotels of Scandinavian Airlines System (both of Sweden)	China International Exhibition Center	43.8	1989 completion; July 1986 agreement	400-room hotel on 33,000-sq-m site inside the China International Exhibition Center
Sino-America Hotel	OS International (US agent of Shearson Lehman Brothers)	Friendship Co of Beijing No. 1 Commercial Bureau	80	June 1985 letter of intent	25- to 30-story hotel
Summer Palace Hotel	Valin Enterprises of Hong Kong	Beijing Summer Palace Tourist Co	4.2	Aug. 1984 contract; 11-year term	74-room hotel
Tiantan Hotel	Hengtaiyuan Co of Hong Kong	Beijing Yanjing Economic Development Co	n.a.	May 1985 contract	n.a.
Tiantan Sportsmen Inn (extension)	n.a.	National Athletic Commission	n.a.	n.a.	Project not yet finalized
Ting Song Lu Hotel	Gold Spint Co of Hong Kong	Bamboo Garden Hotel	0.75	Jan. 1983 contract; 10-year term	n.a.
Wangfujing Hotel	Kumagai Gumi Co of Japan (70% equity)	Shum Yip (Holdings) Co (30% equity)	50	End-1987 completion	17-story, 610-room hotel

Xiyuan Hotel, (extension)	Singapore partner	Beijing Hotel Service Co	n.a.	Late 1988 completion	420-unit office, apartment, and hotel complex
Xuanwumen Hotel (extension)	n.a.	Beijing Food and Drink Service Co; Beijing Hotel Service Co	n.a.	n.a.	350-room hotel; seeking foreign partners
Yanshan Hotel (extension)	Hong Kong partner	Fuerli Co	n.a.	n.a.	300-unit apartment complex
Yuandong Hotel (reconstruction)	n.a.	Peking municipal govern- ment	n.a.	n.a.	n.a.
Yuyang Hotel	Novel Enterprise of Hong Kong, Accor of France	China National Aero-Tech- nology Import-Export Corp; Beijing Animal Husbandry- Industry-Commerce Co	30	1987 com- pletion; 14- year term	620-room hotel; to be managed by Accor
n.a.	Asahi Trading, Sanwa Bank, United Capitals (all of Japan)	Beijing Economic Develop- ment Co, Changping Pre- fecture Agriculture-Industry- Commerce United Enterprise	¥10 billion	n.a.	Resort villa with golf course located near the Ming Tombs
n.a.	Taisei Corp of Japan, RKB Ltd of Malaysia	China National Metals and Minerals Import-Export Corp, Sijiqing Agricultural Cooperative	34	End-1986 completion	24-story, 672-room hotel located at Zizhuyuan Park

<u>Project</u>	<u>Foreign investor/developer</u>	<u>PRC investor/developer</u>	<u>Investment*</u>	<u>Date</u>	<u>Size, other details</u>
Aijian Building Block 4	IMC (Overseas) Co and Shui On (China), both of Hong Kong	Shanghai Patriotic Construction Corp	17	Oct. 1988 completion; May 1985 contract; 10-year term	28-story office/residential complex, with 200 residential units, conference facilities, shopping center, restaurants, and gymnasium
Chengqiao Hotel	n.a.	n.a.	n.a.	1986 completion	200-room hotel
China Youth Hotel	Shui On of Hong Kong	China Youth Travel Service	18	1988 completion	300-room hotel
Dingshan Hotel	n.a.	n.a.	n.a.	1987 completion	200-room hotel
Exhibition Center	Portman Group of the US, Kajima of Japan	Shanghai Exhibition Center	175	1989 completion	700-room hotel; to be managed by Peninsula
Evergreen Hotel	Indar of Hong Kong	Shanghai Chinese Medicine Academy	30	n.a.	n.a.
Garden Hotel/Jinjiang Club	Nomura Securities of Japan	Jinjiang Holdings	60	1988 completion; 16-year term	34-story, 500-room hotel; to be managed by Okura; started construction in May 1986

Golden Tulip International Hotel	Golden Tulip International (jointly owned by Royal Dutch Airlines, Ballast Nedam, Philips Electronics, International Muller, and Airfacts)	Shanghai No. 2 Commerce Bureau	35	1988 completion	600-room hotel; to be managed by Golden Tulip; project not finalized
Hailun Hotel	Xiangshan Co of the US	Shanghai Xinya Holdings	n.a.	1987 completion; July 1985 contract	30-story, 500-room hotel; occupies 2,600 sq m on Nanjing Road
Hongkou Hotel	Kingway Shipping Co	Shanghai Sioing Development	45	1987 completion	800-room hotel
Hongqiao Hotel	n.a.	Shanghai Tourism Corp	30	1987 completion	648-room hotel
Hongqiao Villa	Marubeni Corp and Daiwa House Industry Co, both of Japan	Shanghai Foreign Trade Corp	36	1988 completion	183 two-story houses; 48 houses for Japanese residents with servant's quarters, to be completed by 1986; covers 22 acres, including tennis courts, residents' club, shopping center
Huashan Lu Hotel	n.a.	n.a.	n.a.	n.a.	200-room hotel

*US\$ millions.

<u>Project</u>	<u>Foreign investor/developer</u>	<u>PRC investor/developer</u>	<u>Investment*</u>	<u>Date</u>	<u>Size, other details</u>
Huating Hotel	n.a.	Shanghai Tourism Corp	75	Mid-1986 completion	1,236-room hotel; to be managed by Sheraton; construction started in Aug. 1983
Huguang Mansion	H.C. Tang and other Hong Kong businessmen (30% equity)	n.a. (70% equity)	25	Mid-1985 contract	30-story commercial building with shopping arcade
International Airport Hotel	Chalon Group of Japan	Shanghai Hongqiao Aviation Corp	n.a.	n.a.	n.a.
Jincang Mandarin Hotel	Chung Sing Development Co (50% owned by Overseas Union Bank Group of Singapore)	Jinjiang Holdings, East China Enterprise Co, and Bank of China Shanghai branch	60	1989 completion; May 1985 contract	31-story, 600-room hotel; to be managed by Mandarin (S) Int'l Hotels Pte Ltd of OUE; borrowed US\$55 million from an eight-bank syndicate in April 1986
Jingan Hilton Hotel	Cindic Hotel Investment Co (90% owned by Cindic Holdings of Hong Kong and 10% by Hilton of the US)	Jinjiang Holdings	85	Mid-1987 completion	43-story, 800-room hotel; to be managed by Hilton; borrowed US\$85 million from a 12-bank syndicate in May 1985

Jinjiang Hotel (extension)	Hop Ming Co and Ryoden Machinery Co, both of Hong Kong	Jinjiang Holdings	60	Late 1987 completion	43-story, 728-room hotel; under negotiation for Holiday Inn management; construction started in May 1986
Longbai Hotel	Shai Bo Co of Hong Kong	Jinjiang Holdings	32	Mid-1987 completion; 14-year term	190 deluxe apartments; borrowed US\$28.8 million from Hongkong & Shanghai Bank, Bank of Communications, and Kincheng Banking Corp, 70% guaranteed by Bank of China Shanghai Branch
Maohai Hotel	Zhonghang Investment Co of Hong Kong	Shanghai Foreign Trade Corp	40	1987 completion	457-room hotel; to be managed by Hyatt
Meridien Hotel	US F&T Association of Hong Kong	Shanghai Association for Science & Technology	40	1987 completion	382-room hotel; to be managed by Meridien
Nikko Longbai Hotel	Hotel Nikko Shanghai Investment Co (JV owned by Japan Airlines 60%, Industrial Bank of Japan (IBJ) 5%, Kumagai 25%, and United Trading 10%)	Jinjiang Holding Co	47	Late 1987 completion; 20-year term	11-story, 417-room hotel; to be managed by Nikko; raised US\$4.12 million from IBJ, 70% guaranteed by SITCO
Pacific Hotel	Aoki Construction Co and IBJ, both of Japan	Shanghai Hongqiao Development Corp	60	1988 completion	745-room hotel; project not finalized

<u>Project</u>	<u>Foreign investor/developer</u>	<u>PRC investor/developer</u>	<u>Investment*</u>	<u>Date</u>	<u>Size, other details</u>
SHANGHAI					
Ruijin Building	Mitsui Construction Co of Japan	Shanghai Donghu Joint Co	n.a.	n.a.	28-story, 300- to 400-room office/apartment building
Sapra Hotel	n.a.	n.a.	n.a.	n.a.	n.a.
Shanghai Asia Hotel	Hoi Tung Marine Machinery Supplies of Hong Kong	Shanghai Ocean Shipping Co	17	1987 completion	27-story, 380-room hotel; borrowed ¥3.4 billion from Kincheng-Tokyo Finance of Hong Kong in July 1985
Shanghai Center	Seacliff (JV between American International Group and John Portman and Associates, both of US; and Kajima Corp of Japan)	Jinjiang Holdings and Shanghai Exhibition Center	175	1989 completion; Sept. 1985 contract	50-story, 700-room hotel; two 30-story apartment/office towers; exhibition hall and 1,000-seat theater; borrowed HK\$145 million from a syndicate led by CCIC Finance of Hong Kong
Shanghai International Conference Center	n.a.	Shanghai Municipal Science Association	30	1987 completion; work began in early 1986	380-room hotel, with conference facilities; 33,500-sq-m total floor space; borrowed US\$30 million from a Banque Indosuez-led syndicate; hotel will be managed by Air France

Shanghai Warwick Hotel	n.a.	n.a.	n.a.	n.a.	300-room hotel
Shanghai Yangtze Hotel	Renful Investment of Hong Kong	Shanghai Min Xing Hongqiao Development	18	1987 completion	600-room hotel
Tangqiao Hotel	Yun Ke Co and Chin Pai Co, both of Hong Kong	Minhang Hongqiao Development Co; Bank of China Trust & Consultancy Co; Shanghai Catering Services Co	40	n.a.	Located in Hongqiao district
Wing On Center	Wing On Holdings of Hong Kong	Shanghai Industrial Development Corp	100	1988 completion	700-room hotel; project not finalized
Shanghai World Trade Center	Industrial Bank of Japan and Rowa Real Estate Investment, both of Japan	Shanghai Foreign Trade Corp, Shanghai Minhang-Hongqiao Development Co	150	1988 completion; 18-year, 1985 contract	Two 40-story office/apartment towers in Hongqiao district
Xianyuan Hotel	An overseas Chinese businessman	Jinjiang Holdings Co, SITCO, and Zhongjian Garden Construction Corp	50	1987 completion; Mar. 1985 letter of intent	24-story, 750-room hotel/apartment complex in Hongqiao district
n.a.	Aoki Construction Co and Industrial Bank of Japan, both of Japan	Shanghai Tourism Corp	60	n.a.	27-story hotel

*US\$ millions.

<u>Project</u>	<u>Foreign investor/developer</u>	<u>PRC investor/developer</u>	<u>Investment*</u>	<u>Date</u>	<u>Size, other details</u>
n.a.	Club Corp of Asia of the US	n.a.	n.a.	March 1985 letter of intent	Club house, to be near Longbai Hotel, will have tennis courts and pool
TIANJIN					
Beifang Hotel	Yunion Communication Co and Tokyo Trading Co, both of Japan	Tanggu Bohai Foreign Service Co	5	June 1984 contract; 11-year term	200-room hotel
Tianjin-Astor Hotel	Zapata (HK) Co of Hong Kong	Tianjin Hotel	3.5	June 1984 contract; 10-year term	200-room hotel
Tianjin Foreign Trade Center Hall	Tsinlien Trading Co of Hong Kong	Tianjin International Trust and Investment Co	17.5	Aug. 1984 contract; 15-year term	Hotel/office complex with 35,000 sq m of floor space
Tianjin International Building	Consco Investment Co of Hong Kong	Tianjin International Investment and Engineering Co	40	End-1987 completion; Oct. 1986 contract; 20-year term	Office/apartment building with exhibition hall, cafe; total floor space of 50,000 sq m
Tianjin Lishunde Hotel (renovation)	Ko Lo Co of Hong Kong	Tianjin Tourist Corp	10-20	Mid-1985 started second phase	Addition of 150 rooms; name changed from Tianjin Hotel back to Lishunde Hotel

Tianjin Minzu Hotel	Pearl River Catering Co of Hong Kong	Tianjin Friendship Hotel	4.7	June 1984 contract; 10-year term	256-room hotel
Tianjin No. 1 Hyatt Hotel	Lethia of Hong Kong	Tianjin No. 1 Hotel	30	July 1984 contract; 20-year term	450-room hotel; borrowed US\$15 million from CTB Australia Finance in July 1985; to be managed by Hyatt International Corp of the US
Tianjin Shuijingong Hotel	Wou International of the US	Tianjin Travel Corp	22	1986 completion; construction began May 1985	7-story, 352-room hotel; built by Gammon Construction (Management) Co and to be managed by Peninsula Group, both of Hong Kong
Tianjin Yan Yuan International Hotel	Active Building and Civil Construction (Pte) of Singapore	Tianjin Tourist Corp	22.5	1986 completion; June 1984 contract; 15-year term	250-room hotel; borrowed US\$9 million from Industrial Bank of Japan, Lloyds Bank, and Bank of America
n.a.	Misawa Homes Co and Hokvestv Misawa Homes Co, both of Japan	Tianjin International Trust and Investment Co	1.2	March 1985 contract; 15-year term	Apartment building

Note: ¥163:US\$1; HK\$7.8:US\$1.

Beijing Yanshan Hotel	Wu Yi Engineering Co, Hua Chiao Commercial Bank (both of Hong Kong)	Beijing Fuerli Industrial Corp	n.a.	1988 completion; June 1986 contract	17-story, 225-room hotel; 62-unit apartment complex
Beiwei Hotel (extention)	Swiss Service Corp, Maruichi Co of Japan	Beijing Hotel Service Corp	n.a.	n.a.	20-story project not yet finalized
Capital Airport (extention)	n.a.	Civil Aviation Administration of China	n.a.	n.a.	Project not yet finalized
Changan Center	Japan Airlines, Hotel New Otani, Mitsui and Co, Bank of Tokyo, Nippon Steel Co, Industrial Bank of Japan, Mitsubishi Corp (all of Japan, together hold 49% equity)	Peking municipal government	85	1987 completion	25-story, 550-room hotel, seven-story office, and 21-story apartment complex
Changfugong Building	Changfugong Center Investment (CCI) Co of Japan	Beijing Tourist Corp	95	1988 completion; Dec. 1984 contract; 14-year term	27-story, 512-room hotel, nine-story office, and 17-story apartment complex; construction to start in late 1986

*US millions.

<u>Project</u>	<u>Foreign investor/developer</u>	<u>PRC investor/developer</u>	<u>Investment*</u>	<u>Date</u>	<u>Size, other details</u>
Beijing Exhibition Center Hotel	Gulf Inc of Hong Kong	Beijing Exhibition Hall	9	Late 1986 completion; Dec. 1984 contract; 10-year term	250-room hotel; under way next to the Beijing Exhibition Center
Beijing Hotel (extention)	Henry Fok of Hong Kong	Beijing Hotel Service Corp	8	1986 completion; 1983 contract; 8-year term	Addition comprising 300 deluxe rooms
Beijing International Service Center	Bank of China, Hong Kong branch	Capital Iron & Steel Development Corp; Bank of China Trust and Consultancy Corp	28	n.a.	410,000-sq-m complex includes office building, hotel, and cultural center
Beijing Ningnan Hotel	Guangxin Industrial Co of Hong Kong, Sam Yeung Construction Co of Macau	Guangdong Provincial Government Beijing Representative Office	n.a.	Construction began April 1986	Covers a 24,000-sq-m site
Beijing Shangri-La Hotel	Shangri-La International Hotel Co of Hong Kong (49% equity)	Beijing Zizhu Hotel	40	Sept. 1984 contract; 13-year term	25-story, 680-room hotel; borrowed US\$45 million from a Bank of China-led 11-bank syndicate

<u>Project</u>	<u>Foreign investor/developer</u>	<u>PRC investor/developer</u>	<u>Investment*</u>	<u>Date</u>	<u>Size, other details</u>
FUJIAN					
Huafu Hotel, Fuzhou	United Trading Group of Jordan (50% equity)	Fujian Investment Enterprises Corp (50% equity)	31	End-1987 completion; Dec. 1984 contract; 25-year term	25-story, 300-room hotel
Min-Capital Building, Fuzhou	Quan Sheen of Hong Kong	Fujian Commercial Development Center; Fujian Huaxing Investment Corp	5.74	Dec. 1984 contract; 10-year term	n.a.
Xiamen Holiday Inn Hotel, Xiamen	Singapore Property Investment (Pte) Co of Singapore	Xiamen Foreign Construction Engineering Co	n.a.	End-1987 completion	To be managed by Holiday Inn
Xiamen Qingmengshan Hotel, Xiamen	Yuni Communication Co of Japan	Xiamen Tourist Corp	1.84	June 1984 contract; 15-year term	n.a.
Wanshi Village, Xiamen	Tak Kei Long Pte Co of Singapore	Xiamen Garden Corp	9	Dec. 1984 contract; 18-year term	n.a.
Xiamen Seaview Hotel	Hong Leong Finance of Singapore	Xiamen Travel Bureau	28	1987 completion; work began 1985	400-room hotel on 11,200-sq-m site

Shidai Hotel, Zhangzhou	Best Harvest Trading of Hong Kong	Zhangzhou Guest House; Longjiang Economic De- velopment Co; Bank of China, Zhangzhou branch	5	July 1984 contract; 20- year term	n.a.
GUANGDONG Binjiang Hotel, Guangzhou	C-Ho Co of Hong Kong	Guangzhou International Trust and Investment Corp	10	Work began July 1985; 15-year term	n.a.
Central Hotel, Guangzhou	a Hong Kong company	Guangzhou International Science, Trade, and Exhibition Exchange Center	n.a.	1987 com- pletion; first phase open June 1986	Six-story, 234-room ho- tel; five exhibition halls, 45 offices, and 400-seat conference room
Fengning Mansion, Guangzhou	Hing Ta Lung Enterprises of Hong Kong	Guangzhou Municipal Telecommunication Bureau	20.5	Early 1988 completion; July 1985 contract; 18- year term	25-story, 480-room hotel/ office building
Guangzhou Cultural Holiday Inn, Guangzhou	Lam Cheng (Hong Kong) Investment Co (subsidi- ary of Lam Cheng Pte Co of Singapore)	Guangzhou Culture De- velopment Corp under Guangzhou municipal government	25	End-1988 completion; Sept. 1985 contract	25-story, 418-room hotel on 3,500-sq-m site; US\$30 million loan from Toyo Trust-led seven-bank syn- dicate, guaranteed 70% by Guangdong International Trust and Investment Corp, 30% by Standard Chartered

*US\$ millions.

EXHIBIT 8: Foreign Invested Real Estate Development Projects (continued)

<u>Project</u>	<u>Foreign investor/developer</u>	<u>PRC investor/developer</u>	<u>Investment*</u>	<u>Date</u>	<u>Size, other details</u>
Guangzhou Center, Guangzhou	Chung Fat Development of Hong Kong	Guangzhou Shuihua Property Corp	40	1987 completion	38-story, 1,000-room hotel on 65,000-sq-m site
Guangzhou Ocean Hotel, Guangzhou	Yiu Lian Machinery Repairing Works of Hong Kong	Guangzhou Ocean Shipping Corp	19.6	Dec. 1984 contract; 16-year term	170-room hotel with shopping arcade, restaurants
Guangzhou World Trade Center, Guangzhou	a US company	Guangzhou Suburb Rural Enterprise United Corp	200	1988 completion	62-story hotel/office/apartment/exhibition complex; 25-year free land use; Bank of China guaranteed 70% of loan
Meihuacun Hotel, Guangzhou	Chung Kwong Development Co of Hong Kong	Guangzhou Suburb Rural Enterprise United Corp	n.a.	n.a.	16-story hotel on 9,400-sq-m site
Palace Hotel, Guangzhou	Sun Luen (Holdings) Property Development Co of Macau	Zhangjiang Tourism Bureau	5	1987 completion; Aug. 1985 contract	n.a.
Tianhe Hotel, Guangzhou	Yick Wah (China) Investment Development Co of Hong Kong	Guangda United Enterprises Corp	40	1987 completion; Feb. 1985 contract	28-story, 900-room hotel near new sports center in Tianhe district

Wanjianglau Hotel, Guangzhou	Mei Chung Co of Hong Kong, and a US company	Guangzhou Jiahe United Development Corp	n.a.	1987 completion	Three-star hotel on 55,000-sq-m site
Worldwide Hotel, Guangzhou	Shum Bo Development Enterprises Co of Hong Kong	Guangzhou Dongshan District Beverage Services Corp	18	1987 completion; July 1985 contract; 20-year term	25-story, 360-room hotel with 25,600 sq-m of floor space
Wuyang New Town Center, Guangzhou	Piu Luen Development Co of Hong Kong	Guangzhou East China Industrial Corp	50	n.a.	n.a.
Haikou Hotel, Hainan Island	Cing Union Co of Hong Kong	Hainan Tourist Center	7.5	Sept. 1984 contract; 20-year term	n.a.
Haitian Hotel, Hainan Island	Pacific Corp, Marubeni Corp, and Kajima Corp, all of Japan	Haikou Foreign Economic Development Corp; Bank of China Trust and Consultancy Corp, Haikou branch	35	Nov. 1984 contract; 20-year term	13-story, 525-room hotel; work started in May 1985, but suspended in Dec. 1985 due to late government approval; completion expected in 1988
Qiongnan Hotel, Hainan Island	Sunaya Development of Hong Kong	Bank of China, Hainan branch; China Travel Service, Hainan branch; Hainan Sanya Salt Field	6.78	Aug. 1984 contract; 20-year term	n.a.

<u>Project</u>	<u>Foreign investor/developer</u>	<u>PRC investor/developer</u>	<u>Investment*</u>	<u>Date</u>	<u>Size, other details</u>
GUANGDONG					
Jinkui International Hotel, Jiangmen	Tai Kwong Development Co of Hong Kong	Yuezhong United Development Trading Corp of Jiangmen	25	1988 completion; July 1985 contract; 17-year term	30-story, 450-room hotel, with roof-top rotary restaurant and pool; 45,000 sq-m of floor space
Longhu Hotel, Shantou	Billion Source Investment Co of Hong Kong	Shantou SEZ Commission	n.a.	Late 1986 completion	200-plus rooms
Shantou International Hotel, Shantou	Lee Loi Investment Agency Co of Hong Kong	Shantou International Trust and Investment Corp	n.a.	n.a.	26-story, 400-room hotel; to be managed by Lee Gardens Hotel Management Co of Hong Kong
Asia Hotel, Shenzhen	Hoi Tung Marine Machinery Equipment Co of Hong Kong	n.a.	n.a.	Under construction	605-room hotel
Development Center Mansion, Shenzhen	Landtrade Co of Hong Kong	n.a.	n.a.	Under construction	381-unit building
Huaqiao Hotel, Shenzhen	C-Ho Co of Hong Kong	China Travel Services, Shenzhen branch	39	1987 completion; work began June 1985; 15-year term	28-story, 637-room hotel with 49,000 sq m of floor space; US\$39 million loan from Barclays-led syndicate in June 1985; to be managed by Inter-Continental Hotels of the US

Shenzhen International Hotel	n.a.	n.a.	n.a.	Under construction	426-room hotel
n.a., Shenzhen	Logistica Building Co of France	Chunghua Trading Co of Shenzhen SEZ	400	Jan. 1985 agreement in principal	68-story, 3,200-room hotel with 3,000-seat conference room on 17,000-sq-m site
Palace Hotel, Zhanjiang	Sun Luen (Holdings) Property Development Co of Macau	Guangdong Tourist Bureau, Zhanjiang branch	5	1987 completion; Aug. 1985 contract; 18-year term	Three-star hotel on Haibin Road
GUIZHOU Guizhou Hotel, Guiyang	Guihai Co of Hong Kong	China Travel Services, Guizhou branch	10	Work began Sept. 1985	397-room hotel with 30,800 sq m of floor space
Jinzhu Hotel, Guiyang	Christian Doris of the US	China Travel Service, Guiyang branch; Bank of China, Guiyang branch	3	Nov. 1984 contract; 20-year term	300-bed guest house

*US\$ millions.

<u>Project</u>	<u>Foreign investor/developer</u>	<u>PRC investor/developer</u>	<u>Investment*</u>	<u>Date</u>	<u>Size, other details</u>
GUANGXI China (Guilin) Hotel, Guilin	Nanyang Commercial Banking Corp; Kwongtung Province Bank, Hong Kong branch; both of Hong Kong (hold 25% equity)	Bank of China, Nanning branch; Guilin Tourism Corp (together hold 75% equity)	40	Mid-1987 completion of first phase; 20-year term	1,000-room hotel (600 rooms in first phase); to be managed by New World Hotels (International) Co of Hong Kong
Guilin Man- darin Hotel, Guilin**	Tai Hing (Asia) Promotion Co	Guiqing Hotel Organizing Office of Guilin	20	n.a.	393-room hotel; US\$20 million loan from Stand- ard Chartered-led syndicate
Guilin Overseas Chinese Hotel, Guilin	Orient City of Hong Kong	Guangzi Huajian Co	3	May 1984 contract; 15- year term	300-bed guest house
Panda Hotel, Guilin	Hopewell Holdings of Hong Kong	Guilin Tourism Corp	20	1986 com- pletion	2,500-room hotel
Ramada Renais- sance Riverside Hotel, Guilin	China Trade Omni De- velopment Center of Hong Kong	China Youth Travel Service, Guangxi branch	23 (first phase)	End-1988 completion; April 1987 complete first phase	800-room hotel (354 rooms in first phase) US\$13 million loan in Sept. 1986 from Hong Kong branch of Neder- landsche Middenstands- bank NV, CTB Australia, Bank of East Asia, Hok- kaido Takushoku Bank

HUBEI Shengli Hotel, Wuhan	Marubeni Corp of Japan	Shengli Hotel, Wuhan	n.a.	n.a.	Renovation
JIANGSU Nanjing Inter- national Build- ing, Nanjing	Fo Kei International Co	Jiangsu International Trust and Investment Corp; Nanjing Muni- cipal Property Co	90	1989 com- pletion; mid- 1985 contract	Hotel/office/apartment complex of 100,000 sq m with exhibition, shop- ping, and sports facilities
Nantong Hotel, Nantong	Wah Yan Holdings and Wah Kong Holdings, both of Hong Kong	Nantong Foreign Tourism Services Corp; Nantong Dasheng Industrial Corp	15	1987 com- pletion; con- struction began in Nov. 1985	15-story, 300-room hotel with 19,000 sq m of floor space; US\$11 million loan from Bank of Communica- tions, Hong Kong branch.
Hanshan Temple Hotel, Suzhou	Reliance Contractors Co of Singapore	Suzhou Economic and Technical Development Corp	30	End-1986 completion; first phase began Sept. 1985; 20- year term	400-room hotel on a 22,000-sq-m site; to be managed by Japanese firm; Reliance has all profit in first 10 years, 70% in next six, and 40% in last four
Suzhou Zhuhui Hotel, Suzhou	Mitsubishi Electric Engineering Co of Hong Kong	China Overseas Con- struction Engineering Corp	18	1988 com- pletion; Aug. 1985 contract	400-room hotel

*US\$ millions.

**State Council halted project in April 1986 to cut two floors from eight-story design for esthetic reasons.

<u>Project</u>	<u>Foreign investor/developer</u>	<u>PRC investor/developer</u>	<u>Investment*</u>	<u>Date</u>	<u>Size, other details</u>
LIAONING n.a., Dandong	Toko Co of Japan	Dandong Hotel	5.04	Oct. 1984 contract	630-room hotel
China Dalian International Hotel, Dalian	Javelin Transportation and Construction Co of Hong Kong	Dalian Foreign Consul- tative Service Co	26	Oct. 1984 contract; 18-year term	300-room hotel; US\$17 million loan from a Nanyang Commercial Bank-led five-bank consortium in 1986
Dalian Furama Hotel, Dalian	Farrives Co of Hong Kong	Dalian Foreign Ship Supply Co	23.5	Sept. 1984 contract; 18-year term	300-room hotel
Qinggang Hotel, Dalian	Huagang (China) Con- struction Engineering Co of Hong Kong	Qingda Economic and Trade Corp	12	1986 com- pletion; work began 1985; 17- year term	500-room hotel at Dalian economic and techno- logical development zone
Jiuzhou Hotel, Dalian	A Hong Kong company	Dalian Food and Bever- age Corp	30	1989 com- pletion; work began late 1986	336-room hotel; to be managed by Holiday Inn; US\$20 million loan from a Toyo Trust-led syndicate in Sept. 1986

QINGHAI						
Qinghai Hotel, Xining	Lien Lih (China Investment) of Hong Kong	Qinghai Hotel	28	Jan. 1984 contract; 10-year term	500-room hotel with shopping arcade and amusement park	
Kunlun Hotel, Xining	Gori Pana Development of Hong Kong	Qinghai Travel Service Corp	5	Mar. 1984 contract; 20-year term	300-bed guest house with amusement park	
SHAANXI						
Erfangong Hotel, Xian	Landtrade Co of Hong Kong	n.a.	n.a.	1987 completion	650-room hotel	
Tanghua Hotel, Xian	Japanese companies	n.a.	n.a.	1987 completion; work began July 1986	300-room hotel, with 1,900-sq-m exhibition hall and 1,000-seat restaurant	
Gudou Cultural Art Center, Xian	New World Hotel (Xian) Co and Dako Co, both of Hong Kong	China Huayue International Culture and Art Exchange Corp	36	1988 completion; Nov. 1985 contract; 15-year term	480-room hotel, with theater in 40,000 sq m; to be managed by New World Hotel (International) of Hong Kong	
Datanggong Hotel, Xian	Hong Bo Enterprise Development Co of Hong Kong	Northwest Electricity Administration Bureau	50; (12 for first phase)	End-1988 complete first phase; 15-year term	388-room hotel, theater, and amusement park; profit split equally between partners during contract period	

<u>Project</u>	<u>Foreign investor/developer</u>	<u>PRC investor/developer</u>	<u>Investment*</u>	<u>Date</u>	<u>Size, other details</u>
SHANDONG Qingdao Overseas Chinese Hotel, Qingdao	Poly Enterprises Co, Po Sang Bank, China and South Sea Bank, Yien Yieh Commercial Bank, all of Hong Kong; Nan Tung Bank of Macau	Qingdao Overseas Chinese Hotel	15	1984 contract; 15-year term	n.a.
SICHUAN Chongqing Hotel	Soredic Co of Hong Kong	Chongqing Hotel	14	Nov. 1984 contract	n.a.
Yangtze Hotel, Chongqing	Renful International and Scriven Trading, both of Hong Kong	Chongqing Travel and Tourism Corp	56	Dec. 1984 contract	n.a.
Liyong Hotel, Chengdu	Tai Heng Investment Co of Hong Kong	Sichuan Xinguang Trading Import-Export Corp	5	Work began Sept. 1985	10-story, 120-room hotel; 50:50 equity
XINJIANG Worldwide Hotel, Urumqi	Kai Wah Enterprises of Hong Kong	Urumqi Economic Development Corp	n.a.	Work began Oct. 1985	24-story, 400-room hotel on 39,280-sq-m site
YUNNAN Kunming Overseas Chinese Hotel, Kunming	Kam Wui Design Engineering Co of Hong Kong	Yunnan International Economic and Technological Cooperation Corp	n.a.	June 1985 contract	n.a.

Cuihu Hotel, Kunming	Kam Wui Design Engineering Co of Hong Kong	Yunnan International Economic and Technological Cooperation Corp	n.a.	June 1985 contract	Second-phase extension
ZHEJIANG China Hangzhou Huanglong Hotel, Hangzhou	Kam Kui International (Holdings) and Nanyang Commercial Bank, both of Hong Kong	Hangzhou Tourist Co; Hangzhou International Consultants and Trust Co; Bank of China	30	Oct. 1984 contract; 13-year term	578-room hotel; project managed by Shui On; hotel to be managed by New World Group (both of Hong Kong)
Asia Garden Hotel, Ningbo	Hoi Tung Marine Machinery Suppliers and Wah Lee Trading Co, both of Hong Kong	Ningbo Tourism and Travel Corp	7.2	Dec. 1984 contract; 15-year term	180-room hotel
Hangzhou Hotel	Shangri-La International Hotels of Hong Kong	Zhejiang Tourist Co	3	July 1984 contract; 10-year term	450-room hotel
Hangzhou China-Japan Youyi Hotel	Showa Shoji Co of Japan	Hangzhou Tourist Co	3	June 1984 contract; 13-year term	100-room hotel
Jinlong Hotel, Ningbo	Tai Ling Investment Co of Hong Kong	Bank of China Trust and Consultancy Corp, Ningbo branch; Ningbo Haishu District Tourism Development Corp	7.5	Work began Nov. 1985	24-story, 260-room hotel, with 22,000 sq m of floor space

*US\$ millions.

"Foreign-Invested Hotel and Housing Projects Under Construction", Business China, (22 September 1986 through 12 January 1987).

EXHIBIT 9: Sample Mail Survey

Massachusetts Institute of Technology
Alfred P. Sloan School of Management
50 Memorial Drive
Cambridge, Massachusetts 02139

This correspondence is a part of
research work being
done for a Master's thesis

In reply write to:

In order for me to document my information correctly could you please complete the following:

Name _____
Company _____
Position _____

1. Since what year has your firm had foreign representatives in China? _____
2. How many foreign representatives does your company have doing business in China? _____
3. Where do they do business? (Give number of representatives if possible)

Beijing	_____	Shanghai	_____
Guangzhou	_____	Xiamen	_____
Tianjin	_____	Shenzen	_____
Other(specify)	_____		

4. What is the typical length of a representatives stay in China?

Less than 1 week	_____
1 - 2 weeks	_____
2 - 4 weeks (1 month)	_____
1 - 6 months	_____
Greater than 6 months	_____

5. Where do your representatives in China live:

Hotels _____ Other (Specify) _____

6. Is this because of:

Preference _____ or Lack of alternatives _____

7. Does your company rent this space on a long-term _____ or as needed _____ basis?

8. How much living space do you rent? (estimate sq. meters or sq. feet) _____

9. What is the rental rate for this space? _____

EXHIBIT 9: Sample Mail Survey (continued)

10. How would you rate these living conditions on: (Circle only one number for each attribute.)

	poor			avg.		excellent	
Comfort	1	2	3	4	5	6	7
Cleanliness	1	2	3	4	5	6	7
Availability	1	2	3	4	5	6	7
Price	1	2	3	4	5	6	7
Food	1	2	3	4	5	6	7
Recreational availability	1	2	3	4	5	6	7
Accessibility to office	1	2	3	4	5	6	7

11. Does the living space double as the office space? Yes No
(If Yes, then skip to 18)

12. What do your representatives use for an office:

Hotel room _____ Other (Specify) _____

13. Is this because of:

Preference _____ or Lack of alternatives _____

14. Does your company rent this space on a permanent _____ or as needed _____ basis?

15. How much office space do you rent? _____

16. What is the rental rate for this space? _____

17. How do you rate these office conditions on: (Circle only one number for each attribute.)

	poor			avg.		excellent	
Suitability	1	2	3	4	5	6	7
Availability	1	2	3	4	5	6	7
Cost	1	2	3	4	5	6	7
Services:							
Copying	1	2	3	4	5	6	7
Computer	1	2	3	4	5	6	7
Secretarial	1	2	3	4	5	6	7
Supplies	1	2	3	4	5	6	7

18. Do you believe there is a need for more adequate housing facilities for foreign nationals working in China?

Yes No

19. Do you believe that there is a need for more adequate office space and office services for foreign nationals working in China?

Yes No

EXHIBIT 9: Sample Mail Survey (continued)

Assume that there was a complex which offered: 1) Modern office space with centralized services such as copying, computing, and secretarial staff; 2) One and two bedroom residential units; 3) Amenities such as recreational facilities, and western style restaurants and shops.

20. Would your company be interested in renting residential units in such a complex at your present rental rate?

Yes No

21. Would your company be interested in renting office space in such a complex at your present rental rate?

Yes No

22. Would you be willing to pay a premium over your current expenses to provide these type of facilities to your representatives?

Yes No

23. In what city (ies) would you most like to see a complex, such as the one described above?

24. What features (services) would be most important to you?

25. What are your firms future plans concerning China?

Continue our operations as they currently exist. _____(Skip to 28)
Close or contract our current level of operations. _____
Expand our operations. _____

26. How many representatives do you expect to be working in China after these changes? _____

27. In what cities do you plan to add or delete representation? _____

28. What time frame do you anticipate for these changes? _____

29. If you feel that any of your answers need further explanation or if you have additional information that you believe is appropriate, feel free to write on the back of these pages or to attach other materials.

PLEASE RETURN SURVEY TO:

Gerald R. Burns
Sloan School of Management
50 Memorial Drive
Room E52-112
Cambridge, MA 02138

THANK YOU FOR YOUR TIME

FOOTNOTES

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1 "What It Takes To Operate Rep Offices In Shanghai, Part 2." Business China, (26 January 1987): 9.

2 "Setting Up in Peking: Space Woes Ease As Demand Slacks Off." Business China, (23 March 1987): 43.

3 "Guangzhou Rep Offices, Part 1: What It Takes To Operate in the South." Business China, (8 June 1987): 81.

4 "What It Takes To Operate Rep Offices In Shanghai, Part 2." Business China, (26 January 1987): 10.

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