

# JARDINES AND THE CHINA TRADE

An Address by

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Security Analysts will have scrutinised our latest Annual Report, in which China is identified as one of our long-term growth areas. This presentation reviews Jardines' involvement there — past, present and future.

The Annual Report shows that Jardines was founded in Canton exactly 154 years ago today, and since 1832 has traded with China almost without a break. In 1841 the head office moved to Hong Kong, with London added to the portfolio in 1839 and Japan in 1859. For nearly one hundred years, until 1954, Jardines was essentially a China trading operation with a Japan branch and administrative headquarters in Hong Kong.

At the peak, we employed 113,000 people inside China, mostly in the coastal cities, and Shanghai was officially registered as the Head Office of the company in 1912. By 1930 there were offices in Hong Kong and in 15 cities on the mainland as well as Taipei, Kobe and Yokohama in Japan, and what was then Japanese occupied Manchuria.

The 1937 Japanese invasion of China and World War II hit our China business badly. But by the time the communists entered Shanghai in 1949, we had again built ourselves up to a staff — in Shanghai alone — of more than 10,000 people and to property valued, even at 1949 prices, at \$40 million.

In 1951, my uncle, John Keswick, left Shanghai under an agreement whereby we transferred to the People's Republic of China all our assets there in exchange for our liabilities — effectively three months salary for our people.

Following the final closure of our office in Shanghai in 1954, Jardines moved from a position of "Trade in China" to one of "Trade with China". Our relationships with individual Chinese leaders remained good, in part due to the strong representations we made to the British Government which led to the raising of their embargo on trade with China in 1957

and in part thanks to the very close relationships John Keswick had built up with the Communist leadership during World War II.

Headed by a nucleus of the Old China Hands, we continued to trade in a wide range of commodity products. Our long term shipping relationships with China continued: our ship broking operations, for example, accounting for about 50 percent of the tonnage accepted by China's Merchant Marine. A major landmark during the interregnum was the sale in 1962 of a fleet of Viscount aircraft, a negotiation which should rate as a saga in its own right. Our team went up to Beijing expecting to be there for a week and emerged, four months later, with the deal signed. During this period, too, we attended every one of the twice yearly trade fairs in Canton, even during the turbulent years of the Cultural Revolution.

With the liberalisation of China's economic policies in 1978, Jardines efforts intensified. We began negotiations with the Chinese to invest in an elevator manufacturing company, negotiations which culminated in 1980 with the formation of the China Schindler Elevator Company. This was the first of China's industrial equity joint ventures with foreign companies. And in 1979 we were granted permission to open a representative's office in the Beijing Hotel. It was soon followed by branches in Shanghai and Guangzhou, and the pattern was set for resumption of trade in the mainland proper.

These three offices now provide logistical support for all the Group companies' initiatives in China, as well as assistance to overseas principals. From Hong Kong, our China Trading Division is involved in major project work, such as technology transfers, heavy equipment sales and the oil industry.

For the rest, it is now open house to all Jardine units, and the results have been startling. Our Hong Kong companies have virtually come to think of business in China as an extension of their Hong Kong operations.

The Jardine Engineering Corporation (“JEC”) for example, has established a China-dedicated team of executives whose sole job is to dig up sales opportunities within the mainland. In 1985 JEC sales staff spent about 3,600 man days in China. Our medical trading company, Jardine Danby, now employs seven doctors, all of them qualified in the PRC, as their mainland China sales force. Jardine Industrial Supplies has its own employees, PRC nationals seconded from various trading organisations, sitting inside the China offices. The Gammon project management team have secured five contracts for overseeing foreign-funded building developments; and our shipping agency, which has long had its own staff based in Beijing has developed no less than four joint ventures in Hong Kong in cooperation with Chinese shipping authorities.

Hardly a unit within our Hong Kong operations has been left behind. We sell wines and spirits into China. Moët and Chandon is the No.1 champagne there. We buy rice, silk, angora, chemicals, canned and fresh foods, milk and household products.

Jardines are ground handling agents for CAAC at Kai Tak Airport in Hong Kong. This is a business which has grown from handling one charter flight a week to a peak of 140 flights in the single week in the Chinese New Year in 1986.

Group-wide, we have twelve joint venture companies established in China. We have signed contracts for more than 90 elevator installations in new Chinese buildings, while our joint venture on elevator manufacture has full order books extending over the next four years and has embarked on a major extension of its facilities in Shanghai. We are even involved in office cleaning in the PRC!

Doing business in China is time-consuming, frustrating and often fruitless, and each of our successes may be the result of several years of negotiation. Perhaps I can give one example. Working with a major U.S. manufacturer of heavy duty cranes and mining shovels, we first agreed on a letter of intent for the sale of 150 mining shovels in 1979. This was never taken any further, but in 1981 we began negotiating with the Chinese again on a new tack. No less than 73 rounds of negotiation were held before a technology transfer agreement was signed in 1984. This provided a healthy upfront transfer fee, a fair royalty rate and an agreement to supply components for the shovels.

Within six months of signature of the technology transfer agreement, the first purchase order, worth

US\$30 million, was signed for the shovels to be supplied to the Ping Shuo Mine west of Beijing. Re-orders are now coming through.

That deal was satisfactory, but we were working on at least half a dozen other such projects in 1979 which came to nothing. We had potentially China’s single most extensive technology transfer, on behalf of a U.S. company, and we signed 21 letters of intent in 1982. The package was enormous, but nothing further has materialised since. In 1984 we embarked on a proposed housing development scheme for foreigners in Beijing. For over a year there was a constant exchange of visits; architects and consultants were engaged; draft plans agreed; potential tenants found and agreements drawn up. The result — nothing. We pulled out because we were finally unable to reach a mutually satisfactory agreement with the Chinese.

I suspect that the question uppermost in your minds is: does Jardines actually make any money out of its China trade operations? The simple answer is yes, even after our China office overheads. I fear that I cannot give you a simple figure, both because for the most part our China business is now too intertwined with our Hong Kong operations and because often we often receive the benefit indirectly, via our London insurance or shipping operations, for example. However, it is worth nothing that about 18 percent (HK\$350 million) of Jardines’ Hong Kong consumer product sales last year were China-related.

It is important to understand that our policy on China trade is that we do business on *commercial terms*: we are prepared to walk away from deals that are not mutually beneficial, as happened in our Beijing housing project, for example. There are other China traders here who will deal on non-commercial grounds and apparently gain an advantage by taking business at a loss. Despite this, we remain far and away the largest China trader in Hong Kong, in both scope and size. And I believe that the Chinese understand and respect this business-like attitude.

Jardines’ activities in China are a deeply ingrained part of our history and corporate culture, but my view of China’s potential is not coloured simply by our past or the fact that we happen to be located here. The China trade is a profitable and growing current business, and we aim to continue to participate in its development in a professional, business-like and commercial way. It pays, and I believe that it will continue to do so.