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ECONOMIC COMMITTEE

PRESENT STATUS AND DEVELOPMENT OF THE FOREIGN TRADE OF THE PEOPLE's REPUBLIC OF CHINA(1)

Note by the Delegation of the Federal Republic of Germany

NATO,
1110 Brussels.

(1) as of March 1973

CONTENTS

Summary

China's foreign trade is very small and its total scope corresponds about to that of Taiwan. Its development after the Communists seized power did non run parallel to the development of world trade but reflected the political and economic crises as well as the economic development phases of the country.

After the break with Moscow the emphasis of China's foreign trade was shifted from the COMECON countries, especially the USSR, to the non-Communist industrial countries among which Japan takes the first place.

China's foreign trade policy is aimed to a large extent at autarky and China avoids more than almost any country to become economically dependent on other countries in any way. Therefore, China has not contracted any long-term foreign credits up to now. If she does not change this policy the extension of China's foreign trade will be restricted to relatively narrow limits since the offer of export goods and the competitiveness of the country on western markets are likely to increase only slowly.

PRESENT STATUS AND DEVELOPMENT OF THE FOREIGN TRADE OF THE PEOPLE's REPUBLIC OF CHINA

I. Status of Foreign Trade

Foreign trade which increased at least by 9% in 1972 and thus exceeded a volume of US $ 5,000 million for the first time followed the upward trend of China's economy during the last years. Compared with international standards, however, China's trade still is not of great importance: also in 1972 China's foreign trade turnover was still below Taiwan's volume. The per capita rate in the most favourable case was only about US $ 7 compared with US $ 350 in Taiwan.

After years of deficit trade (1951 - 1954) China has succeeded in obtaining export surpluses since 1955. From these she financed inter alia her substantial foreign aid, especially to North Vietnam. China's recurring annual deficit vis-à-vis her most important western trading partners could again be fully balanced in 1972 by export surpluses of China's trade with the other partners. As already in previous years, the trade balance even showed a surplus.

A first-rate source of foreign currency earnings for China continues to be the trade with Hongkong where annual surpluses of about US $ 600 - 700 million are obtained. China's foreign currency reserves are estimated to amount to about US $ 700 - 800 million. Up to now the Chinese foreign trade policy tends to finance imports primarily from export receipts. Only goods for the further improvement of the industry and agriculture which cannot or not yet be provided to a sufficient extent by the domestic production have been imported.

Large-scale foreign trade on the basis of an extensive international division of labour would be in contradiction to the ideological principles of the Maoist economic and development policy which explicitly emphasizes the principle of autarky. The remote target of China's economic policy continues to be economic autarky.

II. Development Trends of Foreign Trade

1. Development of Foreign Trade in General

Since 1968 the foreign trade turnover shows an upward trend. In 1972 it was possible to increase exports to at least US $ 2,600 million. However, this represents only a share of 0.7% in world trade exports. This relation was considerably better in 1957 when it was 1.6%. This shows that the percentage of Chinese exports in total world exports is strongly declining.

The course of China's exports during the years of 1957 - 1972 (see Annex I) explains this development: while in world trade exports showed an almost continuous upward trend since 1958 the exports of the People's Republic of China followed her economic development cycles; growing exports until the highest increase in 1959 (point of culmination of the "great leap forward"); period of crisis; after 1962 period of adaptation and slow recovery; after 1966 recession as a result of the cultural revolution; after passing the lowest point at the end of 1968 first indications of a beginning consolidation followed by a new upswing.

2. Development of the Regional Structure

While before 1949 the non-Communist countries were China's main trading partners, half of China's trade transactions during the 1950's were with the Soviet Union, 20% with the other Soviet bloc countries and the rest with the West. China was partly pushed into that direction by the western trade embargo.

After 1959 a shifting towards the non-Communist countries became clearly apparent (see Annex II). The impetus to this development was the Sino-Soviet conflict. As a consequence of the changed economic policy a considerable decrease, especially of the trade with the USSR, can be noted after 1959 while the Sino-Japanese trade shows an almost opposite development (see Annex III).

In 1970 the Sino-Soviet trade sank to its lowest level. Although it clearly increased again during the two following years this upswing was essentially due to Soviet deliveries of aircraft and turbogenerators.

If the preliminary estimates are correct according to which the Sino-Soviet trade reached an amount of US $ 280 million in 1972 the USSR would have ranged third among China's trading partners after Japan and Hongkong last year.

As regards China's trade with the European Communist countries, the shares of Albania and Rumania in China's trade increased strongly simultaneously with the decreasing Sino-Soviet trade until 1970 (see Annex IV). This development was interrupted again in 1971 when the Sino-Soviet trade was revived.

Of the non-Communist industrial countries it was especially Japan because of her favourable geographical position which profited most from the fundamental regional shifting of China's foreign trade (see Annex V). Since the mid-1960's Japan has held first place among China's trading partners. In the meantime the Sino-Japanese trade turnover has reached a share of about 22% in China's foreign trade volume. This corresponds approximately to China's trade with her Communist trading partners. Japan's share in Chinese steel imports has risen to 75% in the meantime and that in China's fertilizer imports to about 50%.

After the establishment of diplomatic relations between Japan and China the conclusion of an official trade agreement is planned for 1973. Thus trade relations which were hampered by political aspects up to now will be further normalized and the pre-conditions for a growing expansion of the Sino-Japanese trade be created.

As regards China's trade with Western Europe the Federal Republic of Germany has been holding first place for a long time followed by France, Great Britain and Italy. For some time China has shown a growing interest in the EEC whose existence she welcomes as a counter-weight to the COMECON.

There is a steady increase in the mutual exchange of trade delegations between China and her trading partners. China makes an effort to make the spring and autumn fairs in Canton as a performance and sales show more and more attractive for the annually increasing number of firms' representatives from mostly non-Communist countries. However, China's increasing foreign trade activity should not be over-estimated. It is not an indication of an essential extension of China's foreign trade in the foreseeable future.

Moreover, it cannot be expected that the present share of the Communist and non-Communist countries in China's foreign trade will change substantially in the near future. In particular for the following reasons a shifting of the regional structure in favour of the Communist countries will probably not take place:

- China prefers purchases and sales on the free market to foreign trade business with the Communist countries on the basis of trade agreements because she shuns long-term and detailed ties and can better use the competition on the free market in her interest.

- For the build-up of the Chinese industry the adoption of modern technologies and the import of the required investment goods is a compulsory necessity. These factors determine the regional orientation of China's import policy. Also in this field the starting basis for the western industrial countries is in general considerably more favourable than that of their Communist competitors. However, regional shiftings appear possible within China's trade with her non-Communist partners. If the strong expansion of the Sino-American trade continues as in 1972 this will be at the expense of the other western trading partners.

3. Development of the Goods Structure

The goods structure - especially on the import side - shows clearly that it runs parallel to the development of China's economy.

(a) Chinese Imports

The large annual food imports (especially wheat) which represented still one third of total imports after the crisis years of 1959 - 1961 have been reduced to such an extent that in 1971 agricultural imports (about US $ 200 million) amounted to only about 9% of the total imports. Thus, their value was considerably lower than that of the steel imports. However, even if the domestic agricultural production continues to grow China will still have to import major quantities of wheat (in 1971 about 4.3 million tons) primarily from Canada and Australia. These imports are required as reserves and for the supply of the towns near to the coast to relieve the transport system. Moreover, the imported wheat has been used to close supply gaps caused by the export of rice which brings higher prices on the world market than wheat. Although the rice export helps to reduce the expenditure of foreign currency for the wheat imports the latter is still a heavy burden on the trade balance.

Imports of chemical products reached US $ 310 million in 1971. The share of fertilizer alone in this sum was about 60%. The share of fertilizer in total imports was about 8%. In view of the planned increase of the agricultural production this share will not substantially decrease even if the domestic production of fertilizer would grow continuously. Thus China will remain to be the biggest fertilizer importer in world trade also in future.

The share of machines and equipment in total imports increased to about 22% in 1971. Thus, this group of goods is at the top of the import scale. The increase is especially due to higher imports of machine tools and means of transport, since the domestic production of these goods is not sufficient to meet the growing demand following the continued accelerated economic growth. Iron and steel imports are gaining increasing importance. They amounted to 15% in 1970 and increased to abcut 20% of all imports in 1971. This group of goods takes second place on the import side. A growing demand can be expected also during the coming years.

Purchases of non-ferrous metals were below the level of the previous year in 1971 and thus the slightly backward trend which started after 1969 was continued.

(b) Chinese Exports

The good harvest results of the last years had a lasting effect also on the export side and they led to a substantial increase of food exports which represented about one third of China's total exports in 1971. In this connection, processed food has been exported in an increasing extent.

Semi-finished and finished industrial products have ranged first in Chinese exports since 1959 and seem to have maintained this position during the last years. These goods were exported mainly to Asian development countries up to now. For some years China has been trying to take a foothold also in western industrial countries by exporting industrial consumer goods of good quality and at competitive prices.

Important goods exported by China are also raw materials, fuel and cooking oils. Exports of tungsten, for which China is the leading country in world trade, decreased in 1971 as in the years before, just as exports of other non-ferrous metals. The decisive reason for this was probably the increase of China's own strategic reserves. The growing domestic demand for raw materials as a consequence of the increasing industrial production will probably continue to limit China's raw material exports in future.

III. Prognosis

A substantial increase of China's foreign trade (which would be in line with the often expressed opinion of China being the largest future market of the world) cannot be expected in the coming years for the following reasons:

China's planning economy system accords only a supplementary function to foreign trade and excludes any participation in international division of labour. The policy of relying on her own strength is aimed at reaching as much autarky as possible. Under this policy imports are only allowed to the extent as they are useful to accelerate the achievement of autarky. Within this context it can be expected that China will continue to import industrial facilities to an increasing extent in future, if necessary on a credit basis. However, China will avoid any step which might bring her into permanent dependence on a supplying country, if only because of her negative historical experience.

An increase of China's foreign trade depends to a high degree on an increase of Chinese exports since China is very reluctant to contract long-term credits. However, any permanent export increase will be clearly limited, for it has already been necessary to deprive the domestic demand of raw materials and traditional Chinese products in order to make them available for export. Food exports were further limited due to the uncertain results of the domestic agricultural production, the steadily increasing domestic requirements for important basic food products and the limited capacity of the consumer countries to take such food products. Consequently, it is impossible to base a lasting expansion of foreign trade on agricultural products and raw materials alone. A substantial export increase can only be achieved by extending the supplies from an increasingly expanding and export-orientated industrial production. For the time being the export of industrial products, especially to her western trading partners, meets with considerable difficulties because it is difficult to adapt the industrial production of a planning economy to the quantitative and qualitative requirements of the importers. The build-up of a systematic market research organization in the purchasing countries and the inclusion of the results in the planning of the domestic production can be realized only on a long-term basis.

Under the present circumstances the annual rate of growth of foreign trade will not much exceed 10% in the near future. This growth will be possible only if developments are not affected by serious economic drawbacks and basic changes of China's economic policy.

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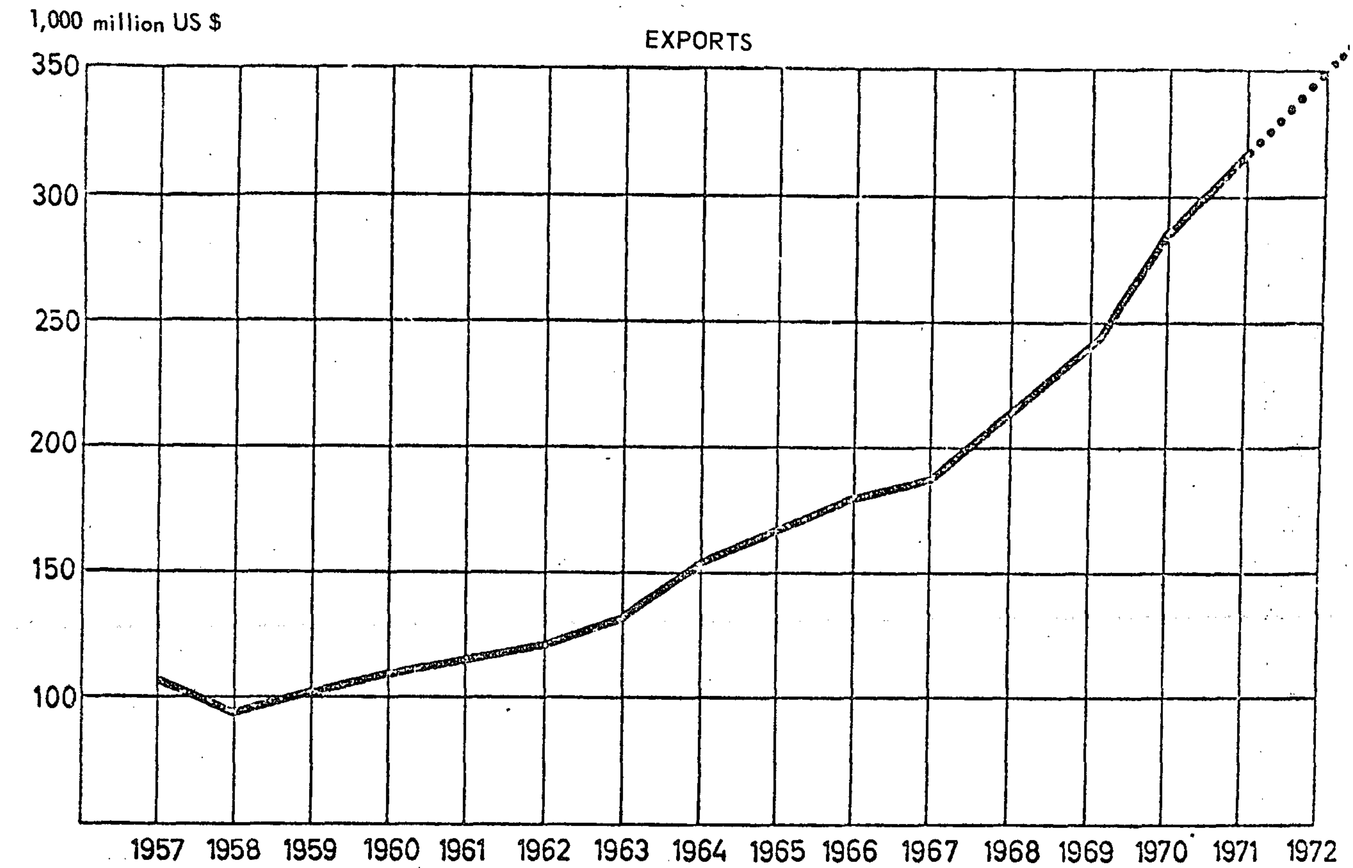
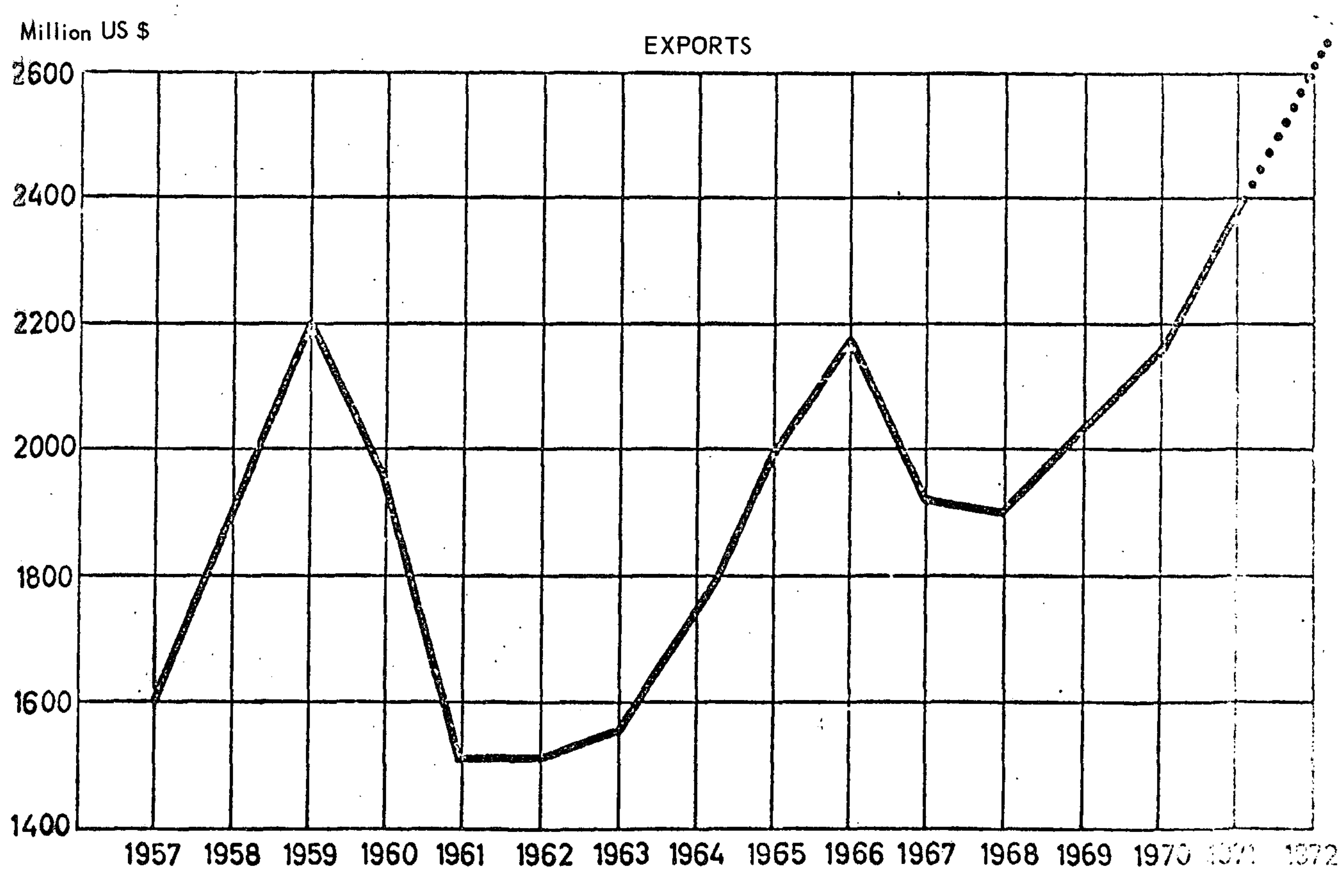
WORLD TRADE

EXPORTS



CHINA

EXPORTS



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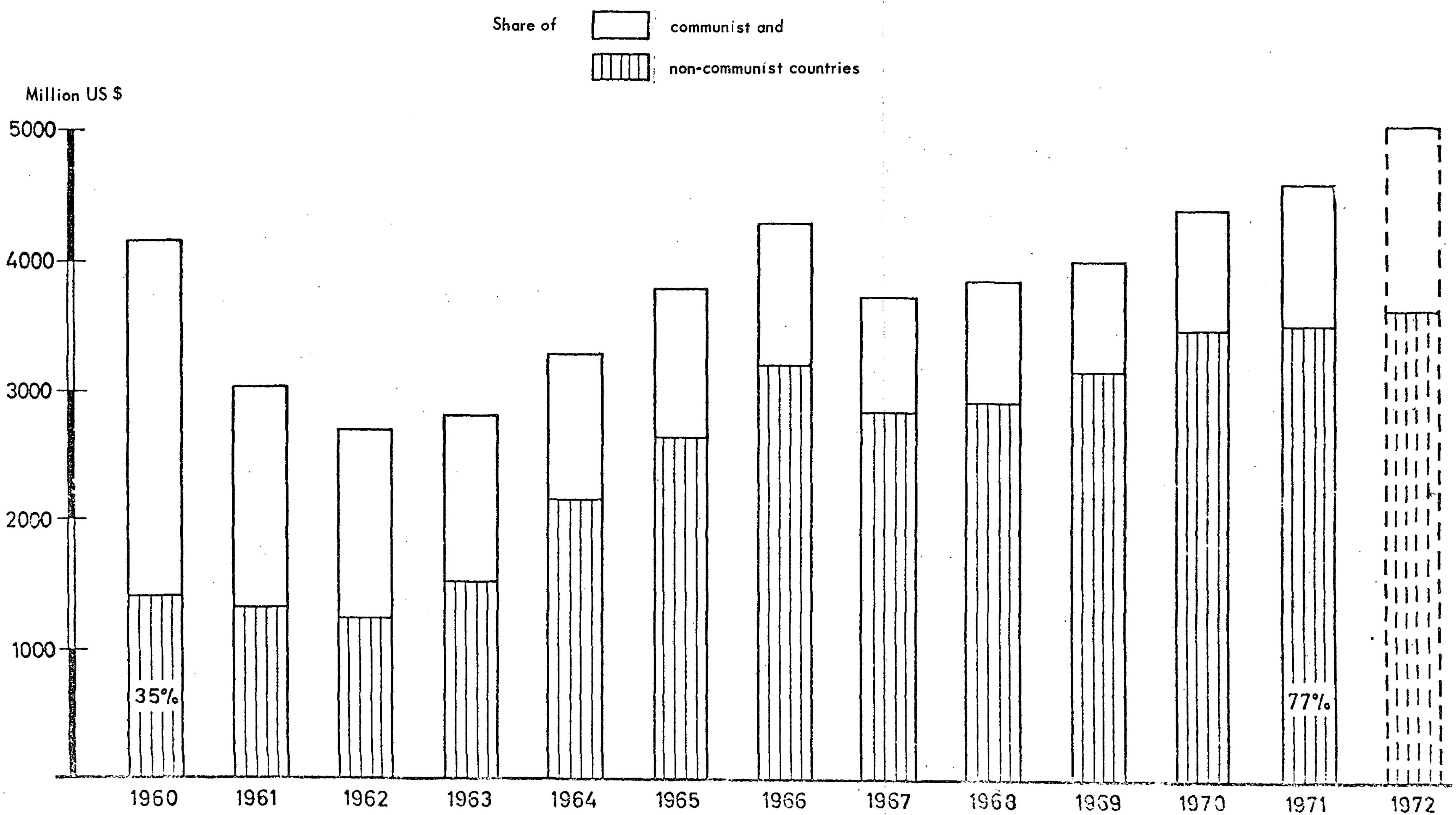
CHINA'S FOREIGN TRADE VOLUME



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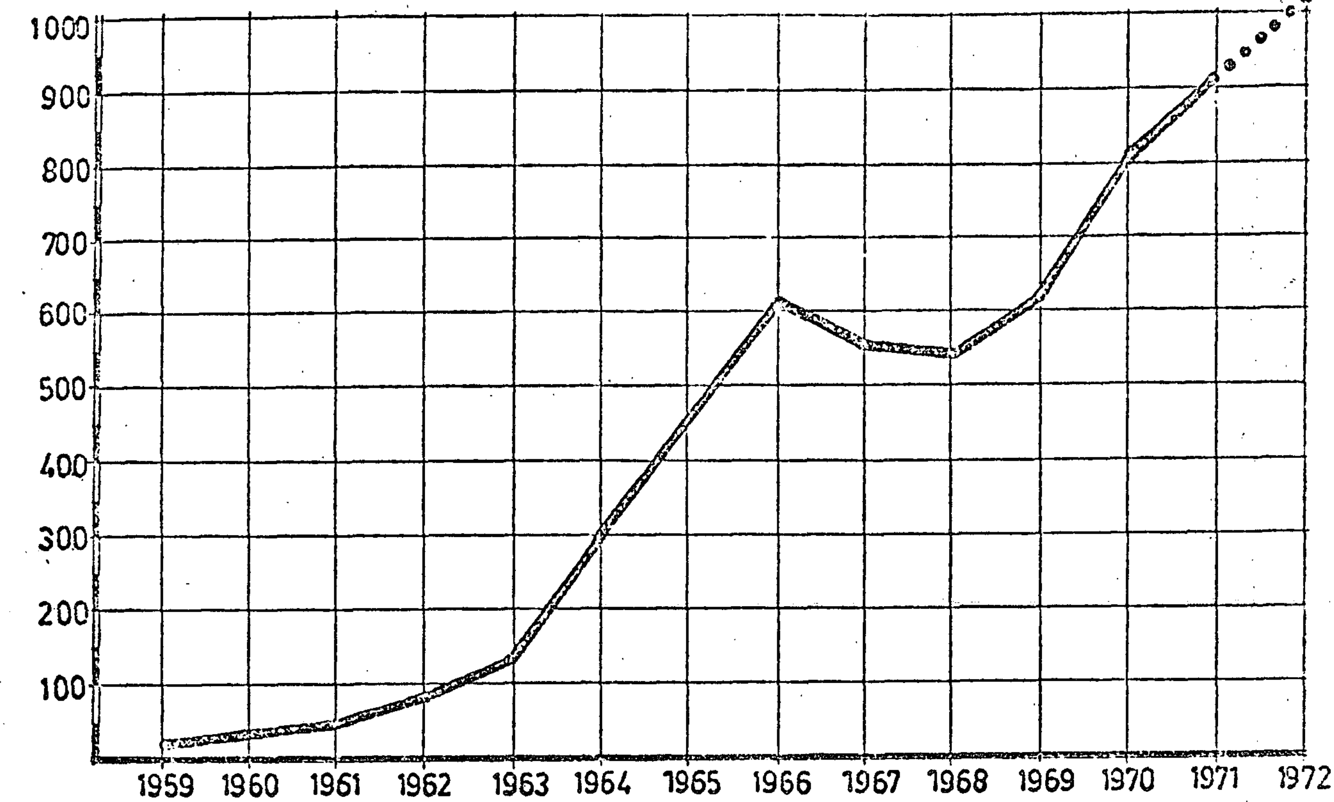
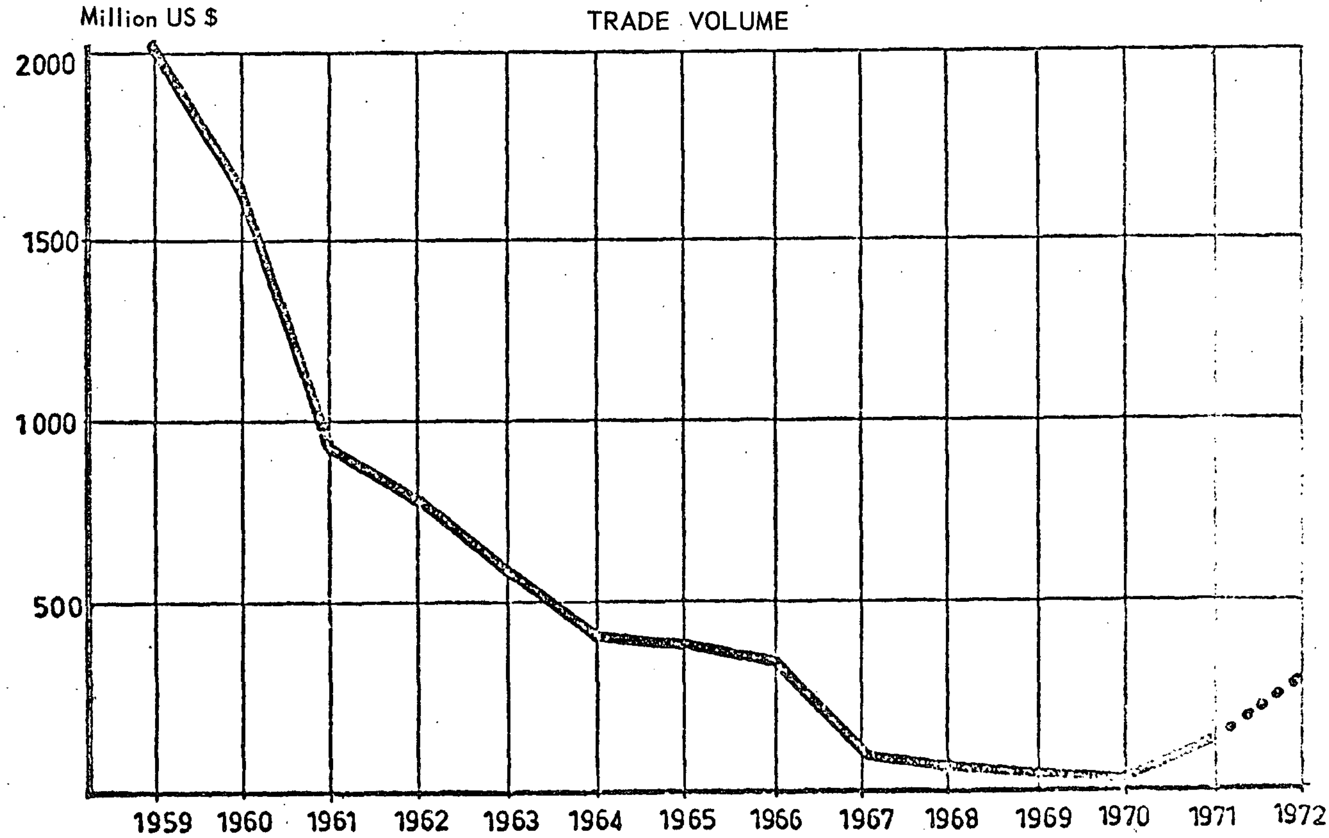
JAPAN - CHINA

TRADE VOLUME



USSR - CHINA

TRADE VOLUME



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Trade between China and the European Communist Countries

Regional Structure

(Percentages of the various countries in China's total trade with the European Communist countries)

	1959	1966	1970	1971
Albania	0.1	13.8	26.1	16.9
Bulgaria	0.6	0.6	0.9	2.3
CSSR	7.2	6.8	13.4	8.0
GDR	8.1	10.0	14.3	11.3
Yugoslavia	0.1	0.3	0.4	0.9
Poland	3.6	7.8	9.3	8.0
Rumania	2.2	9.7	18.4	25.6
USSR	75.0	46.3	12.9	20.9
Hungary	3.1	4.7	4.3	6.1

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China's Foreign Trade

Regional Structure

(Percentages of China's total foreign trade volume)

		1959	1971
Europe		82.0	36.7
Communist Countries		66.5	15.0
among which:	USSR	49.9	3.6
	GDR	5.4	1.9
Non-Communist Countries		15.5	21.7
EEC Countries		9.2	14.3
among which:	FRG	4.7	5.4
	France	1.4	4.2
	Italy	1.2	2.8
EFTA Countries		5.8	6.3
among which:	Great Britain	3.0	3.4
	Switzerland	1.1	0.8
	Sweden	0.5	1.1
Asia(1)		13.9	43.4
among which:	Japan	0.6	20.8
	Hongkong	4.9	9.8
Australia		1.1	1.6
America		0.3	9.7
among which:	Canada and USA	0.2	5.6
	Cuba	-	2.7
Africa		2.7	8.6

(1) The Asian Communist countries (People's Republic of Mongolia, North Korea and North Vietnam) have not been taken into consideration in this table since only rough estimates are available which contain also substantial military aid shipments (especially to North Vietnam)