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China's Foreign Trade Policy

by Holger Dohmen, Hamburg *

China's maxim of trusting in its own strength may well be the vital clue to an understanding of its foreign trade policy. In the fifties two-thirds of the Chinese foreign trade was conducted with Comecon states, above all the Soviet Union. After the break with the Kremlin Peking decided on a widely diversified, multilateral policy for its foreign trade. "To make foreign things serve China" became the motto.

As a trading country the People's Republic of China is still relatively unimportant. Scoffers might say that the most populous nation on earth has the smallest number of businessmen. The total volume of China's foreign trade, imports and exports, was in 1974 an estimated DM 30 bn. Thus of the country's gross national product in that year, which is put at DM 540 bn, only a little over 5 p.c. was represented by the Chinese foreign trade. (For comparison: The Federal Republic of Germany in 1974 had a gross national product of DM 955 bn of which DM 230.5 bn went into exports.) The 1975 figures are expected to be similar.

Ideology and Foreign Trade

The small and yet steadily growing size of China's trade with the outside world (cf. Table 1) depends on

- the ideological-political foundation of the Maoist regime, and
- economic factors with partially ideological determinants.

The ideological-political sector is governed by the maxim that the foreign trade, being a part of the foreign policy, must be opposed to colonialism and exploitation; besides, it is to serve China as a means of gaining influence and recognition in the communist and non-communist world. As for the economic sector, it has to be said that the foreign trade is for Peking a means of raising production and ensuring self-sufficiency in accordance with the motto: "Agriculture the foundation — industry the leading factor". The smallness of the Chinese foreign trade is primarily attributable to the lack of foreign exchange. Which

of the two factors carries more weight in the practice of foreign trade cannot be definitely established by the outsider.

Foreign Trade Minister Li Chiang has stated in "China's Foreign Trade", the journal which resumed publication in 1974, which principles govern the Chinese foreign trade: "Over the last two decades and more, acting upon the teachings of Chairman Mao on foreign trade, China has opened up trade with other countries of the world in a planned way, on the basis of equality and mutual benefit, to learn from other countries' merits and obtain necessary materials, equipment and techniques through exchange. This is an implementation of the principle of making foreign things serve China, and combining learning with inventing in order to add to our ability to build socialism independently and with the initiatives in our own hands through self-reliance to speed up the pace of our socialist construction."¹

Shift towards the West

China's maxim of putting its trust in its own strength may well be the vital clue to an understanding of Chinese foreign trade policy. The experience of the "lean-to-one-side policy" and the subsequent stoppage of Soviet help in the early sixties still reverberates today. It has had a traumatic effect on the Chinese politicians and firmly convinced them that never again must China be dependent upon any one country. In 1950–59 as much as two-thirds of the Chinese foreign trade had been concentrated on the Comecon states, especially the Soviet Union. China's response to the break with the Kremlin was not a "closed-door policy" however. Instead the People's Republic embarked on a broadly diversified,

* Institute for Asian Affairs.

¹ Li Chiang, *New Developments in China's Foreign Trade*, in: *China's Foreign Trade*, 1974, No. 1, p. 3.

multilateral foreign trade policy although Peking's path during the search for suitable trading partners has often been erratic.

The assumption that good political relations with Peking would be accompanied by an advantageous development of economic relations has been of limited validity; hope and disappointment often followed each other in quick succession, especially in the West. The British, French and Italians had hoped for a simultaneous improvement of economic relations as a result of the opening of diplomatic relations with the People's Republic, but their China trade has in fact been of a smaller volume than that of the Federal Republic of Germany which did not even have an official commercial treaty with Peking. It was only in 1972, when the two states entered into official relations, that they concluded such a treaty.

China's trade with the USA on the other hand rose to dizzy heights following the establishment of "semi-diplomatic" relations, but it fell off in 1975, chiefly because large wheat imports were cancelled. Having turned its back upon the socialist Eastern bloc, China is today doing about 80 p.c. of its foreign trade with non-communist states. How much the foreign trade is still overshadowed by foreign policy is however shown by the example of Rumania: Its policy of emancipation from the Soviet Union is being "rewarded" by Peking; Rumania is China's leading trade partner among the communist states. The anti-Soviet bent of the Chinese foreign policy is thus transmitted to the foreign trade policy.

The establishment of diplomatic relations with the European Community by China must also be viewed as a matter of foreign policy rather than under economic aspects. The Chinese wish for an official commercial treaty with the Commission in Brussels to replace the present bilateral agreements does not spring from the intention to expand the trade with the EC states decisively but corresponds to Peking's foreign policy strategy which sees a strong Europe as a potential counter-weight to the Soviet Union.

Conversely, many people in Europe are still believing in the chimera of an unsatiated market of 800 million Chinese, and this belief was encouraged, intentionally or not, by remarks made every now and then by Chinese politicians. At the Fourth National People's Congress in January of last year the then Chinese Premier, the late Chou En-lai, proclaimed the aim that China was to become one of the great industrial states of the world by the end of this century. Such remarks are rashly interpreted as an indication that China would now increase its purchases abroad in order to venture on the leap from a developing country to a modern industrialized state.

"To Make Foreign Things Serve China"

The quoted remark by Li Chiang disproves this speculation. China will not engage in imports unreservedly. "To make things serve China", the maxim laid down by the Chinese reform movement already before the end of the last century has still validity in communist eyes. Applying the substitution principle, China will go on buying end-products as long as the Chinese consumption is below the level warranting the purchase of a complete self-supporting plant. Besides, the Chinese are copying technical know-how for which they have paid once. They have done so for years without reservation, and as China has not joined any patent protection agreement, its western trading partners must take into account that the Chinese will later reproduce any items sold to them rather than place repeat orders for them. The Chinese do not consider such conduct in any way reprehensible. On the contrary, groups of visitors to China have time and again been shown machines which were in every respect identical except that the markings of manufacturer and country of manufacture were in one case, say, German and in the other one Chinese.

The close connection between foreign policy and foreign trade is also reflected by the institutional set-up. Like all state trading countries with a central state monopoly over the foreign trade, China has a special Foreign Trade Ministry. Attached

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Table 1
China's Exchange of Goods with Important
Partner Countries
(In DM bn)

Country	1974		1975	
	Imports	Exports	Imports	Exports
Japan	5.1	3.4	6.24	3.38
Hong Kong	0.14	2.7	2.47	0.05
Federal Republic of Germany	1.08	0.49	1.4	0.47
USA	2.09	0.29	0.78	0.36
Canada	1.14	0.16	1.17	0.13
Australia	0.88	0.3	0.96	0.29
France	0.47	0.41	0.81	0.42
Great Britain	0.43	0.40	0.52	0.31
Italy	0.27	0.30	0.28	0.26
USSR	0.33	0.31	—	—*

Source: BfA-Mitteilungen 30. 1. 76 and 4. 7. 75.
* Values not yet available.

to this government department is the China Council for the Promotion of International Trade (CCPIT) which was formed in 1952 and may be compared with the chambers of commerce in western countries. There is a close personal liaison between the CCPIT and the Chinese Foreign Ministry. Its main function is that of initiating, sustaining and encouraging economic relations on a private level. This task may be regarded as part of the popular diplomacy by means of which China, amongst other things, initiated relations with Washington (Pingpong diplomacy).

The Role of the Foreign Trade Companies

The Chinese trade is on the practical level carried on by foreign trade companies. Corresponding to product groups, there exist the following eight foreign trade corporations:

- China National Cereals, Oils and Foodstuffs Import and Export Corporation,
- China National Native Produce Animal By-products Import and Export Corporation,
- China National Textiles Import and Export Corporation,
- China National Light Industrial Products Import and Export Corporation,
- China National Chemicals Import and Export Corporation,
- China National Machinery Import and Export Corporation,
- China National Metals and Minerals Import and Export Corporation,
- China National Technical Import Corporation.

The foreign trade companies are acting as agents for the end-user in China and taking their bearings from the general economic plan. Only fairly

recently have breaches of the foreign trade companies' monopoly by direct buyer-seller contacts at exhibitions and trade fairs been observed. At the Canton Fair in particular which is being held twice a year it is now happening more and more often that suppliers conclude contracts with Chinese end-users. The main advantage of this method for both sides is that it shortens the progress from the original offer to the ultimate contract of sale which is often protracted and obstructed by bureaucratic measures.

No Credits but Deferred Payments

One of the principal characteristic features of the Chinese foreign trade policy is the refusal to formally accept credits: "Our country never relies on getting loans to solve the problem. . . . Today China is one of the few countries with neither internal nor external debts."² Deferred payments are the only form of credit which the Chinese will accept. Such payments deferment is allowed to the purchaser by the seller direct and plays a major role, especially in regard to China's imports of capital goods. Offers of credits by way of third parties such as banks, on the other hand, are still being rejected by the Chinese; an exception from this rule is made only for the Chinese-owned banks in Hong Kong and Singapore. It does not trouble the Chinese that when selling contracts run into millions, the supplier, confronted with this payments procedure, will himself have to arrange a credit.

Table 2
Projected PRC Repayment Schedule, 1975-82

	Payments for complete plants already contracted for as of Dec. 31, 1974	Payments made assuming PRC continues to purchase \$ 1,000,000,000 yearly medium term financing	Subtotal (1) and (2)	Payments for agricultural products	Grand total
	(1)	(2)	(3)	(4)	(5)
1975	257.5	200.0	457.5	1,000	1,457.5
1976	340.0	200.0	540.0	1,000	1,540.0
1977	358.1	200.0	558.1	700	1,258.1
1978	370.3	416.0	786.3	700	1,486.3
1979	259.6	620.8	880.4	700	1,580.4
1980	218.0	814.4	1,032.4	700	1,732.4
1981	146.9	996.8	1,143.7	700	1,843.7
1982	103.0	1,168.0	1,271.0	700	1,971.0

Source: China, Reassessment of Economy, Washington 1975, p. 670.

The capital goods imports from 1972 to the end of 1974 are estimated to have involved deferred payments to a total of between US \$ 1.2 and 1.5

² Hsiao LI-Chih, Striking Contrast between Two Different Economic Systems, Peking Review, No. 48, November 29, 1974.

bn. Normally the deferred payment follows this pattern: 20–35 p.c. of the purchase sum is paid on account at the making of contract. The remainder is paid over a period of up to 5 years after completion of the object with interest at 6 p.c. a year. Table 2 shows a schedule according to which China will probably meet its financial obligations in the next years. Limited credits may be claimed even if China's trading partner stipulates payment in cash. For the German steelworks in Wuhan for instance the Chinese had to put down 90 p.c. of the purchase price of over DM 600 mn; the remainder will be transferred two years after the plant has been started up. Viewed objectively, the statement that China has no debts thus evades the real issue. China's total financial obligations for imports are currently estimated at US \$ 4.5 bn³.

China as an Oil Producer

The fact that China is facilitating trade relations with the West will prove of increasing importance in future since the People's Republic has become an oil exporting country. The most varied and confusing figures have been mentioned concerning China's actual and potential oil output and export capacity. Japanese estimates suggest an output capacity of 400 mn tons by 1980. The latest news from Japan however indicate that because of the low quality of Chinese crude the oil industry there is not prepared to absorb more than 10–15 mn tons of this oil annually⁴. The manifest discrepancy between China's high proven oil reserves and its producing and refining capacity will impede a decisive export break-through in this sector in the foreseeable future.

The Chinese Minister for the Petroleum and Oil Industry, K'ang Shih-en, himself admitted in a recent conversation with the Japanese Foreign Trade Minister that China's industry is still lagging in this sector. K'ang stressed at the same time that the cost of China's requirements of essential equipment is to be covered by exports of oil⁵. For the time being, any hopes of oil importers outside Asia to obtain supplies from the People's Republic seem to be castles in the air, for the Chinese transport and harbour facilities are small and partly inadequate. As a means of procuring foreign exchange earnings, it may therefore be surmised, oil exports will continue to play only a minor role in Chinese foreign trade policy.

³ David L. Denny, *International Finance in the People's Republic of China*, in: *China, Reassessment of Economy*, Economic Joint Committee, Washington 1975, p. 669.

⁴ The Japan Economic Journal, January 13, 1976.

⁵ Summary of World Broadcasts, Weekly Economic Report, November 26, 1975.

The Chinese foreign trade is settled in Renminbi (RMB). Since August 1974 the People's Bank of China has been quoting daily rates of exchange between the RMB and 15 major foreign currencies; these are published by the Hsinhua news agency. To facilitate business transactions, the Bank of China, which bears the responsibility for international money operations, provides foreign exchange guarantees for most trading partners in the form of forwarded exchange deals for up to 6 months.

As an interesting detail it may be mentioned in passing that Japanese businessmen have been enjoying this advantage only since April of last year. Until that time China's biggest trade partner was suffering from a handicap in that, as the exchange between RMB and yen was calculated from the RMB-sterling rate in London and the dollar-sterling rate in New York, a Japanese exporter signing a contract with China did not know what the RMB amount due to him would actually be worth in yen. The exchange rate fluctuations, especially the fall of sterling, were for the most part working to the disadvantage of the Japanese businessmen who invoiced 80–90 p.c. of their exports to the People's Republic in RMB. That this situation has been changed betokens the Chinese intention to make exports to Japan easier. The same facility has, incidentally, been granted to US firms.

Table 3
China's Complete Plant Purchases
December 1972 – end 1974

Type of Plant	Cost (US \$ mn)
Chemicals and synthetic fibres	741
Steel	585
Fertilizers	562
Electric Power	222
Oil	34
Miscellaneous	10
	2,154

Source: Paper by Prof. Audrey Donneythorne, Canberra: *China's Import of Capital Goods and Policy of Foreign Credit 1972-1974*, p. 12 f.

Table 4
Chinese Purchases of Large Equipment
1972 – September 1974

	US \$ mn
Aircraft	675
Ships	400
Power generating sets and equipment	350
Dredging and port equipment	235
Mining machinery and equipment	100
Oil drilling and exploration equipment	100
Oxygen generating equipment	75
	1,935

Source: See Table 3.

Severe setbacks on the foreign exchange front seem to have occurred for the first time in 1973 and 1974. China's foreign currency reserves incl. gold are estimated by experts at between US \$ 1 and 4 bn. The extremely wide margin between these two figures shows incidentally with what caution data about the Chinese economy have to be treated, for Peking has not published concrete figures for a number of years. Considering what impact the vast imports of capital goods, especially in the last three years, must have had on China's foreign currency reserves (cf. Tables 3 and 4), the surprising gold sales by China are also understandable. Recent reports tell of substantial price falls in the gold market which are said to have been caused by sales from such reserves⁶.

Hong Kong – Example of a Flexible Foreign Trade Policy

The British crown colony of Hong Kong is still China's largest source of foreign exchange earnings. The small colony is the second largest market for Chinese goods and in 1973/74 ranked second among China's trading partners, surpassed only by Japan. The Chinese banks in Hong Kong which are the collecting point for remittances from Chinese abroad to their relatives in the People's Republic provide an additional hard currency income. These transfers reportedly total US \$ 100 mn in an average year. In Hong Kong is the biggest branch of the Bank of China outside the territory of the People's Republic. The Singapore office may soon rival the Hong Kong branch in importance as the Asia-dollar market here is gradually developing into a financial centre for South-east Asia.

The example of Hong Kong illustrates the great flexibility of China's foreign trade policy. Although it is one of Peking's principles to fight against any form of colonialism, ideological-political objections are set aside because of the cardinal role with regard to foreign exchange which Hong Kong is playing in Peking's foreign trade concept. Another example shows that the ideological element is disregarded in external economic affairs: A comparison of China's balance of trade with the industrialized states of the West and with the countries of the Third world shows that with the former it has for years past been negative while with the latter it has been positive. While castigating Moscow for imperialism and exploitation, it is thus in great measure true that Peking is

keeping its total foreign trade in balance by offsetting shortfalls on the "rich" side by surpluses on the other, the "poor" side⁷.

Prospects

As long as China adheres to its policy of balance of trade equilibrium and eschews indebtedness on any major scale and until its export earnings rise substantially above their current level, natural limits will check efforts to broaden the Chinese foreign trade policy. The problem of food supplies is one which, for the time being at any rate, has a negative impact on China's foreign trade; 80 p.c. of the population are still occupied in the agricultural sector, and millions of Chinese could be released for employment on industrial processes if the People's Republic were one day to succeed in a radical increase of the agricultural output which – albeit at the cost of great labour intensity – is already covering the country's needs. Only when this happens will China be in a position to take on an entirely new role in the world market. The outcome of the power struggle about the political and economic course to be pursued by the People's Republic in future which is evidently being waged at this moment could also have repercussions for the foreign trade policy. Once before, during the Cultural Revolution, China broke off almost all contacts with the outside world. Mao Tse-tung's ideology of the Permanent Revolution reduced China to a similar state of economic chaos as the policy of the Great Leap Forward had done earlier.

The issue in the dispute about the "walk-on-two-legs strategy" today is once again the old one of the road which China should go until it has attained the objective proclaimed by Chou En-lai – to be a modern industrial state. While one side, the "leftist" Shanghai fraction, views any ties with the capitalist world with suspicion and would certainly prefer to concentrate on the internal construction effort, the moderates see a better chance in extending the relations with the rest of the world. In the past the Chinese have known how to follow up revolutionary phases with periods of political and economic recovery, but it has been largely impossible for China's commercial partners to chart the course of Chinese foreign trade policy over the long term. Li Chiang may well have drawn too rosy a picture when he said: "Looking forward to future development, it is certain that China's potentialities for foreign trade are substantial because of its vast territory, rich resources, enormous population and flourishing socialist construction... Without doubt, the prospect is that our trade with other countries of the world will continue to broaden."⁸

⁶ The Times, London, January 20, 1976.

⁷ Cf. Rüdiger Machetzki, Die aktive Handelsbilanz der VR China – Imperialismus aus Not? (The active balance of trade of the PR China – Imperialism through necessity?), in: China aktuell, 1974, p. 422 ff.

⁸ Li Chiang, *ibid.*, p. 5.