

Dohmen, Holger

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European Aid for China's Economy?

by Holger Dohmen, Hamburg *

The fact that increasing importance is being attached to foreign trade under the new Chinese leadership must not be mistaken for automatic expansion of the importation of foreign goods. Foreign trade will, as before, have only a complementary function in the economic development of China. For the time being there is no chance of doing really big business with China.

In banking circles it is no longer a secret: The Chinese People's Republic, so long the uncompromising champion of a conservative policy of trust in China's own strength, is looking around for assistance from abroad. Since the trip of a delegation from the Bank of China to Europe in the past summer at the latest it has no longer appeared impossible that the People's Republic would in the future buy on credit as do all other trading countries. The European Community will occupy a prominent place in this concept. Since last May it has had in its hands what is the most comprehensive trade offer ever presented to Brussels by the Chinese; at that time Peking told the Italian Foreign Minister, Forlani, that it wished to raise its foreign trade with the EC to the level of its dealings with Japan, until now its biggest trading partner. At the same time the Chinese expressed the wish to bring the negotiations for a formal trade agreement to supplement the bilateral treaties which expired on January 1, 1975 to a positive conclusion; these negotiations had been stagnating since the opening of diplomatic relations in September 1975.

At European Commission headquarters one is inclined to give ear to the Chinese message but does not really consider an early agreement with Peking likely. Time is measured on a different scale in China, as European businessmen have had ample opportunity to find out. What importance should then be attached to the Chinese initiative at the present juncture? What hopes may the Community countries indulge in for their Chinese business?

In recent years the Community was already China's second largest trading partner. Its im-

ports from EC states have more than doubled between 1970 and 1975, from US \$ 348 mn to US \$ 756 mn. The exchange of goods between the two areas increased in 1976 further, from EUA 1,819 mn in 1975 to EUA 2,033 mn, i.e. by 11.7% (1 EUA [European Unit of Account] = US \$ 1.118). The Community's imports from China advanced in 1976 by 28.7%, from EUA 666.8 mn to EUA 858.2 mn, while the corresponding export figure went up by 1.9% only, from EUA 1,152.8 to EUA 1,174.8 mn. The Community's trade surplus with China thus declined to EUA 316.6 mn. Today the European Community probably accounts for 22% of all imports into the People's Republic and 13% of the exports. China's largest trading partner in the Community in 1976 was again the Federal Republic of Germany, followed by France, Italy, Great Britain, the Netherlands, Belgium-Luxembourg, Denmark and Ireland¹.

That the trade between China and the EC is still of small proportions is primarily due to the foreign currency stringency from which this nation of 900 mn people is suffering. It forms the background against which the exploratory talks of the Bank of China must be viewed for they are the consequence of such an acute scarcity of foreign currencies, brought about by the largest purchases of wheat ever made by China. In the 1977/78 agricultural year China will have imported almost 12 mn tons of wheat — against an average of about 5 mn tons in the past 15 years — at a cost to the Chinese balance of trade of about US \$ 2 bn. The shortage of foreign currencies and the mounting deficits in trade with the

* Institute for Asian Affairs.

¹ BfA/NfA, August 3, 1977.

West (US \$ 810 mn in 1974, US \$ 455 mn in 1975) caused industrial imports in 1976 to fall by 13%. According to Bank of America estimates China achieved last year a surplus of US \$ 1.1 bn in its total foreign trade (of which US \$ 762 mn originated from trade with non-communist states) but only at the price of a 25% cutback of its total imports². These figures indicate the dilemma facing the new Chinese Government. Advanced and expensive technologies are needed from the West in order to transform the country into a modern industrialized state during the next 20 years – an aim on which party chairman Hua Kuo-feng again insisted recently. This issue has been a bone of contention during the last two years but unequivocal guidelines about the importance of trading with other countries have by now been issued. At the National Foreign Trade Conference at the end of July Deputy Premier Yü Ch'iu-li, who is the planning chief, laid stress on the important role of the foreign trade for the four Modernizations (agriculture, industry, defence, and science and technology) to be carried out by the end of the current century. Speaking to 1,400 people from trade offices and organizations, Yü called for the importation of advanced technologies and the expansion of China's foreign trade in the revolutionary spirit of the Taching oilfield and the Tachai production brigade³.

Complementary Function of Foreign Trade

Does this then mean that the ideological foundation of an autarkic economic mechanism as postulated by Mao Tse-tung has been shaken by objective economic constraints? Hardly. The old slogan of trust in China's own strength still prevails under the new leadership. The foreign trade will, as before, have only a complementary function in the economic development of China; it must serve as a subsidiary adjuvant to overall economic development. "The foreign trade must be based on the internal economy and be primarily directed towards the internal market. The internal trade however must in turn aid the foreign trade. If the foreign trade has been developed through the free evolution of its external commercial function, it will be the better able to support the internal market."⁴ The future direction of China's foreign trade has been indicated even more clearly in an article of the Peking Review of July 12, 1977 under the heading: "Trust in our own strength and put foreign things to China's use!" which said *inter alia*: "To learn from other countries and to adopt the good features of the

others in order to overcome our shortcomings through foreign trade and other exchanges on the basis of equality and mutual advantage provides us with a good example in economy, culture, national defence, science and technology and helps us to create new things and to develop ourselves. Blind self-conceit and utter rejection of everything that is foreign are anti-Marxist and unscientific."

The fact that increasing importance is being attached to the foreign trade under the new Chinese leadership must not however be mistaken for automatic expansion of the importation of foreign goods. So if Peking now announces that China could do as much business with the EC as it is doing with Japan, this means for the moment no less and no more than that a shift – more correctly: a reduction – of Chinese trade away from its neighbours in Asia is imminent. This is a trend which can be reversed as quickly as it has been started. The figures for the current year are very much to the point. The outcome for the first five months of 1977 was clearly below last year's: In 1976 the Sino-Japanese trade had a total value of US \$ 1.4 bn in this period. This year it was only US \$ 1.2 bn – 14% less. The constantly growing imbalance of trade, primarily due to the lop-sided structure of Chinese exports and therefore in the near future more or less insusceptible to change has been something of a headache for Peking for quite some time. The propounded expansion of trade with the EC states would enable Peking to kill two birds with one stone. It could on the one hand intensify the cooperation with the EC which China regards as the major bulwark against Soviet "social imperialism"; on the other hand it could enlarge China's own export opportunities in this market. The offer of an official commercial treaty to the EC states has one other trade policy component: Peking is even now trying to quicken the competitive race between its Western trading partners – Japan, the USA and the EC. After all, all states want as large as possible a slice of the appetizing Chinese cake for themselves, and so the trade rivalry will obviously become correspondingly more acute. The Chinese will be the ones to profit.

The French have just given a foretaste of what is in store. Paris plans to play a lone hand in Peking to get a head start over others. It has been learnt that the French have drawn up an especially attractive credit scheme for the Chinese in order to export more goods. The Chinese have thus given a further demonstration of their mastery of the art of playing off partners against one another. The French however will probably soon discover that Peking is not taken in by feigned affability. The rupture with Moscow has been too painful a

² International Herald Tribune, August 13, 1977.

³ New China News Agency, July 29, 1977.

⁴ Udo Weiss, Von der Stärke des Auslands lernen (Learn from the strength of the outside world), in: China Report No. 35-36, 1977, p. 14.

traumatic experience of what it means to be at the mercy of any one state. Nobody can hope for a monopoly over the China trade in the future.

Tempting Credits from Japan

There have been rumours for some time that the Chinese are willing to accept credits from foreign banks. Last May Japanese banks offered credits to the People's Republic but these were not to go by the name of credits⁵. The daily paper *Mainichi* gave front-page coverage to a story that 18 Japanese banks were willing to provide substantial overdraft facilities for three months. They assumed that if China made use of these facilities, the overdrafts would be limited to third currencies at Japanese and Chinese banks. This mode of procedure would exploit an artifice. Since foreign banks have deposited more money with the Bank of China than vice versa, the Chinese are in effect given a loan. At the end of 1975 Japanese banks had reportedly about US \$ 100 mn on accounts with the Bank of China in London but last year they are said to have come under Chinese pressure to reduce this sum drastically. To meet the Chinese the Japanese are said to have offered them further the use of low-interest moneys of the official Overseas Economic Cooperation Fund (OECF). This offer was also turned down by the Chinese on the ground that it was tantamount to economic aid.

To go by all the experience with Chinese credit practices up to now, European banks will also have to confine themselves largely to the payment methods practised in the past. Most common among these practices are what is known as deferred payments: The Chinese import companies pay up to 90% of the invoiced amount at or before delivery and the remainder within a few years from the signing of the contract. This was for instance how the steel rolling mill at Wuhan, the largest export order from China for any German firm (DM 600 mn), was financed. China's negative attitude to Western credits makes all the less economic sense because Peking's indebtedness is relatively low. It may be assumed that the external liabilities due to imports of Western know-how over the past five years — it was only in the early seventies, after the Cultural Revolution had run its course, that China resumed imports on a big scale — have by now grown to about US \$ 2 bn. To this must be added US \$ 500 mn from the London inter-bank market, as disclosed recently by the International Bank for Settlements in Basle. On an international scale this is a trifling sum, seeing that the Soviets for instance are in the red with foreign credit institutes to the tune of nearly US \$ 10 bn⁶.

⁵ Far Eastern Economic Review, May 27, 1977.

This poses the question how China wants to increase its imports in the future if the country does not want either to borrow or to incur substantial trade deficits. The answer which is currently being given to this question, also by the Chinese, rests on the conviction that foreign currencies for more import goods can be obtained through exportation of raw materials. China's oil wealth — comparable, according to a recent CIA study, to that of the USA — is regarded as a kind of *deus ex machina* who will offer Peking an escape from its confounding shortage of capital. However, while the international press has always given quite fantastic figures about the rate of production — 200 mn tons in 1980 is an example — the reality is different. At an average growth rate of at most 20% in the past seven years the crude oil output in 1980 is unlikely to exceed 100 mn tons in 1980, and as the country's own energy requirements are bound to increase with the envisaged economic growth, China will hardly be able to earn substantial foreign currencies proceeds by exporting crude oil which could finance increased industrial imports. The conclusion reached in the CIA report is therefore that while China will daily produce 2.4–2.8 mn barrel of crude in 1980, no more than 0.2–0.6 mn barrel will probably be available for export. The rest would have to go into home consumption. The report contains a final prediction that in ten years' time the whole of the crude oil output will be used to meet Chinese requirements, assuming that no new oilfields are opened up in the western part of the country or off-shore⁷.

Sweet-Sounding Announcements

There is another reason why the conjectures, especially in Western countries, about a possibility of balancing or intensifying the trade with China by means of raw material imports are unrealistic. The long distances to be covered would make the transport too expensive, for instance for European trading partners, the more so as at present the Chinese do not even possess suitable port facilities to handle supertankers profitably. Even the geographically favoured Japanese have in the meantime pulled back and announced that they will probably not import more than 12 mn tons of Chinese crude in 1982, instead of 15 mn tons as anticipated. A study of the Japanese oil refining industry contained a warning against overestimating the imports of Chinese crude oil⁸.

How then should Europeans in the light of these facts interpret the sweet-sounding announcements about Chinese intentions to raise their

⁶ Far Eastern Economic Review, August 26, 1977.

⁷ Lloyd's List, July 2, 1977.

⁸ The Japan Economic Journal, August 2, 1977.

trade with the EC states to the level of the Sino-Japanese exchanges? Two inferences may be warranted:

The optimistic forecast is a signal for China's foreign trade partners that they may look forward to a more predictable future. The uncertainties of the past 18 months, felt especially in contact with Chinese state foreign trade organizations, seem definitely to be done with.

The new party chief, Hua Kuo-feng, is hopeful that optimistic slogans can restore the self-confidence of the Chinese population and show how it can thereby create trust in China. The two great national conferences on the lessons of Tachai and Taching and the publicity given to Mao Tse-tung's speech on the ten great relations were but initial programmatic actions. The humdrum of everyday life which now follows will leave much less room for euphoria. China's new leaders have replaced the political campaigns which were the cause of repeated economic setbacks for their country by a campaign for competition. They are calling on their people to set course for new shores. Prognosis is made an instrument of national integration.

More European than the Europeans

Since Peking's recent European initiative it has been surmised in Brussels as elsewhere, and not without reason, that the Chinese are primarily interested in solid political objectives, as well as trade-political ones. Cardinal to these objectives is Peking's three-worlds theory in which Europe's economic potential and manpower has made it the focal point of the rivalry between the two superpowers. As seen from Peking, the European Community, which is considered a part of the Second World, is a community for struggle against the superpowers (which form the First World), and to strengthen it is therefore an imperative postulate, as is the strengthening of the developing countries (the Third World). After the long period of self-isolation due to the Cultural Revolution Peking began in the early seventies to open diplomatic relations systematically with most EC countries insofar as such relations did not yet exist. In the fifties and sixties it was Peking's aim first to gain a diplomatic foothold in Asia and Africa. Today one may say – to put it pointedly – that the best Europeans are in Peking and not in Brussels. Until the break with the Soviet Union Peking's European policy was overshadowed by the relations with Moscow. The EC was in those days a "capitalistic economic bloc with neocolonialistic tendencies". Only in 1964 when Peking evolved the between-zones theory, which relates to the medium-sized and small industrial states of Western Europe as much

as to the developing countries, did the People's Republic switch over to the line representing the currently prevailing view of the foreign-political scenario. In the late sixties the EC and EFTA had still been described by the Chinese press as "proof of the progressive aggravation of the contradictions of the capitalist world". Since the beginning of the second Sino-Soviet ice age however Peking has been watching the Community's integration efforts with increasing sympathy.

For close on two decades the NATO, and the German Bundeswehr in particular, had been denounced as aggressive military instruments putting world peace in jeopardy. All of a sudden the Atlantic defence alliance was now hailed as a force designed to keep the Soviet "hankering for hegemony" in Europe in check. Warnings against the Soviet Union, and only in the second place against the USA, have become routine in Peking since. This being the Peking perspective of Soviet policy, it is not surprising that the policy of détente has been condemned as weakening the Atlantic Alliance. The European security conference – for the Chinese an "insecurity conference" – is described as a tool used by Moscow to turn Europe into a larger Finland so as to secure a favourable starting position for the clash with the USA. The talks on forces reductions (MBFR) in Vienna are also evoking a critical echo from Peking.

The Eastern bloc has kept a watchful eye on Peking's political and economic flirting with the states of the European Community ever since the Chinese policy changed, as is proved by a veritable broadside of press articles on the subject which have been published more recently. The East bloc criticism focuses on three points:

Peking is using the European Community and NATO to slam the door on the policy of détente;

Peking is departing from the principle of economic self-sufficiency;

Peking wants to import foreign know-how in order to boost its armaments.

As the Novosti agency put it in July 20, 1977: "The approach to the Common Market clearly reveals Peking's endeavour to make use of the scientific-technical knowledge and achievements of the West for the furtherance of its military programme, including the nuclear missile potential." China's foreign trade partners in Europe, as well as in other parts of the world, will still have to presuppose in future that in Peking's eyes the foreign trade will at all times be but a function of foreign policy. For the time being there is no chance of doing really big business with China.