Writing on the Wall

The wall posters are up again in Peking, and China watchers are trying to decipher what all this means for relationships between the world's most populous nation and the rest of the world. Earlier periods of domestic turmoil created serious economic difficulties for the People's Republic of China, including a severe depression after the Great Leap Forward of the late 1950's and a recession at the time of the Cultural Revolution in the late 1960's. The present succession crisis, with the "Capitalist Roaders" on the defensive, raises the question of whether the strong economic advance of the past several years could be stymied again by ideological factors.

The magnitude of any potential setback might be hard to quantify, especially in a land where economic statistics are practically state secrets. Nonetheless, the information that is available suggests that the Chinese economy has been able to overcome earlier reverses and to record a relatively strong growth trend over the past two decades. During that period, farm production has grown about 2 percent annually, in line with population growth, while industrial production has risen about 9 percent annually.

Trade and growth
With a GNP in the neighborhood of $250 billion, China thus ranks among the top half-dozen of the world's largest economies. GNP growth has provided a substantial margin over subsistence for use in building up the nation's economic and military capabilities. The agricultural sector, supplemented by food imports, has fed an expanding population now numbered at about 900 million. The industrial sector, from a very small base, has provided rapid increases in capacity and output of industrial materials, machinery and military equipment. Finally, the foreign-trade sector has helped meet the nation's crucial needs for fertilizer, grain, industrial materials, and advanced equipment.

The key to future trends may first become visible in China's foreign-trade statistics. When the technocrats held the upper hand during the strong economic advance of the early 1970's, they explicitly recognized that continuation of rapid economic growth would require accelerated technological progress and a greater international-trade orientation. The question today is whether an attempt will be made to return to the policy of rigid self-reliance—import minimization—which characterized much of the regime's earlier days in power.

Boom of the '70s
The value of China's foreign trade did not rise above the 1959 peak until 1971. Then, because of renewed Chinese interest in foreign goods, but also because of worldwide inflation and currency revaluation, the dollar value of foreign trade (exports plus imports) surged from $4.7 billion in 1971 to an estimated $14.9 billion in 1975. In the process, China ran up substantial

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trade deficits—reaching about $1.0 billion in 1974—such as would have been unheard of in earlier days.

Imports of machinery and other capital goods have played a crucial role in China's industrial development, especially in the 1950's and again in the early 1970's. Similarly, imports of foodstuffs (mostly grain) have made an important contribution to the urban food supply ever since the early 1960's, thereby easing the production burdens of a hard-pressed peasantry and the distribution burdens of an overloaded transportation system. In this scheme of things, planners viewed exports primarily as a means of earning foreign exchange with which to purchase growth-supporting imports.

The trade (and political) orientation of the 1950's, described as a "lean to one side" policy, channeled two-thirds or more of China's trade to the Soviet Union and other Communist nations. That policy collapsed in the early 1960's at the time of the Sino-Soviet split, which brought to a virtual halt an extensive program of turnkey (complete plant) projects in which thousands of Soviet technicians had been closely involved. Since then, the PRC has conducted as much as four-fifths of its trade with Western Europe, Japan and other Asia.

Japan alone accounts for about 20 percent of the PRC's total trade, because of geographic proximity and (especially) economic complementarity. Japan is heavily depend-

ent on raw-material imports to fuel its modern industrial economy, while China's economic planners place a high priority on importing the types of machinery and industrial goods which Japan is capable of supplying. Western European countries provide similar assistance; for example, the Germans are now building a major steel plant on the Yangtze River at Wuhan, alongside a Japanese plant of like design. Hong Kong is another important trading partner, supplying a large share of China's foreign exchange needs because of substantial purchases of food and textiles.

**Boom for the U.S.?**

The U.S. has come late to the modern China trade, although trading relationships began in 1784 and thrived throughout the clipper-ship era of the 19th century. In this century, trade between the two nations slumped after the 1920's, except for a brief flurry during the post-World War II reconstruction period, and then stopped completely for two decades because of the enmity engendered by the Korean War. Political normalization, Chinese food shortages and worldwide inflation suddenly boosted total U.S.-PRC trade from $96 million in 1972 to $804 million in 1973 and $935 million in 1974, but the trade totals just as suddenly fell below $450 million in 1975.

During the 1973-74 boom, China found that its traditional grain suppliers (Canada and Australia) could not boost exports by the 2-4 million tons required, so it turned to the
U.S. But then, in 1975, it slashed its purchases from this country because of improved crop prospects as well as dissatisfaction with the quality of American wheat and corn shipments. In the meantime, the U.S. managed to gain no more than a 3-5 percent share of China's industrial-goods imports, at least in part because of Japan's competitive edge in this market. (Still, the U.S. has recorded substantial sales of jet transports, ammonia plants, telecommunications facilities and heavy equipment.) Another damping factor was the heavy U.S.-PRC trade imbalance, brought about by China's limited ability to market her products in this country. The food, textiles and other consumer products which are China's stock in trade have little competitive advantage in our markets—and China's world-famed firecrackers fail to meet current U.S. safety standards.

The whole issue is clouded by the lack of formal diplomatic relations between the two countries, which limits the ability to settle a number of outstanding trade issues. Trade probably won't expand as long as credits are unavailable to cover the present trade imbalance, and yet the recent Trade Act precludes Ex-Im Bank credits to countries with which we have no intergovernmental trade relations. (For that matter, China traditionally avoids incurring large external debts.) Similar considerations apply to the failure to settle pre-Korean War claims—which involve some $197 million in U.S. private claims against China and $77 million in PRC assets frozen in this country—and to the failure to grant most-favored-nation status to Chinese exports.

Self-sufficient?
What of the future? According to the Department of Commerce's William Clarke and Martha Avery, "Of the principal nations of the world, probably none is closer to self-sufficiency than China. At the same time, Chinese ideology coupled with the planning of a centrally controlled economy and a deliberate government policy of being highly self-reliant injects a political element into commercial relationships to a degree seen few places elsewhere in the world."

We might add that there are several unsettling elements in this highly structured equation. One such factor is petroleum. China has gone beyond self-sufficiency in that crucial commodity and is already exporting oil to Japan—and by some projections, could attain a massive trade surplus from oil exports within the next decade. If that production materializes, the trading relations of China, the OPEC, and the industrialized world could change materially. The other unsettling factor is the present succession crisis, which could undermine the recent drive for economic growth and thereby destabilize both domestic and foreign-trade policy. But whatever the outcome, it will probably become apparent first in the trade statistics, even before it shows up in the ever-present wall posters.

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