Growth and Structural Change in China-US Trade

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1. Introduction

China-US trade ties have expanded dramatically since the establishment of diplomatic relations between the two countries in 1979. During the decade of the 1980s, China-US trade grew more rapidly than the world trade and China's total trade. In 1990 China was the United States' tenth-largest trading partner, and one of its largest suppliers for textiles, shoes, toys and games. The United States, in turn, was China's third-largest trading partner (ranking behind Hong Kong and Japan) and a major source of the technology and investment needed for Chinese economic development. It is therefore not surprising that China-US trade has received considerable attention in the analysis of the Chinese economy (Harding 1987, Hsu 1989, Chen 1991).

The China-US trade relationship is, however, at a crossroad. There are at least two major trade issues that will impact the growth of China-US trade. First, the past several months have seen a raging &bate in the United States over the renewal of China's most-favored-nation (MFN) status, which allows nondiscriminatory tariff treatment for Chinese exports to the United States, and Export-Import Bank financing for United States exports to China. Although President Bush announced he would renew China's status for another year, strong pressures emerged from some in the Congress to use MFN to punish China for the Tiananmen incident in 1989. If China were stripped of MFN status, its exports to the United States would be largely snuffed out by killer tariffs. Second, in recent years there has been increasing trade imbalance between China and the United States. This issue is, however, complicated by the problem of discrepancies between Chinese and United States trade data. Chinese statistics indicate a Chinese deficit of $1.4 billion in trading with the United States in 1990, whereas United States data show a United States trade

deficit of $10.4 billion with China (BEER, 30 January 1992). Clearly the growing trade imbalance has been of great concern to both sides and is likely to become a priority issue in the future trade agenda.

China-US trade growth over the past decade is of theoretical and policy importance. During the late 1970s and the early 1980s, there was an intense debate over the role of trade in the economic development of developing countries. Some economists advocated the superiority of the export-led strategy in the light of the impressive growth in manufactured exports achieved by the Asian NICs since the 1960s. They argued that other developing countries should transform from a high-protection, import-substitution policy to an export-led policy to accelerate economic growth (Balassa 1980, Little 1982, Krueger 1984). Nevertheless, others were skeptical about the possibilities for export expansion from developing countries. In their view, recession in developed countries, followed by a weak recovery, since the late 1970s reduced their demand for the products of the LDCs and resulted in greater restrictions placed on imports from these countries. This severely limited developing countries' access to the markets of developed countries (Lewis 1980, Diaz-Alejandro 1980, Edwards 1985). While it now seems widely accepted that outward-oriented trade strategies are superior to inward-oriented strategies, many economists urge that more country-specific studies over time are needed to provide new evidence (Helpman 1989, Havrylyshyn 1990).

The objective of this paper is to examine the growth and structural change in China-US trade in the post-1979 period, analyze the causal factors and policies shaping this trend, highlight the position from which the future development of China-US trade will begin, and to review the basic structure.upon which trade policy of both countries must operate. The paper is organized

as follows: Sections 2 and 3 examine respectively the aggregate growth and the commodity composition of China-US trade. Section 4 discusses Hong Kong's role in China-US trade. Section 5 analyzes Chinese trade policy. Some conclusions are outlined in the final section.

2. Aggregate Growth

China-US trade growth during the post-1979 period can be best understood against the broader background of China's recent participation in the world economy.' After nearly two decades of adhering to a relatively autarkic strategy that minimized the nation's dependence on the global market, China opened up the economy in the late 1970s. Since then a huge change has occurred: Beijing has place greater emphasis on foreign trade, encouraged foreign investment in the domestic economy; accepted foreign debts; joined the major international organizations; and multiplied the channels for acquiring advanced technological know-how and managerial expertise. These moves, consequently, caused trade to burgeon. In a striking contrast to virtual stagnation during the 1960s and severe fluctuation in 1970-76, total trade more than quintupled between 1978 and 1990 to $115.4 billion. The ratio of trade to GNP rose from 10 per cent in 1978 to 31 per cent in 1990, a level favorably compared with those of other large countries. Exports averaged 12 per cent annual growth (in real terms) from 1979 through 1990, a rate matched during the period only by Eastern Asian NICs. China became the world's 14th largest exporter in 1990, up from 33rd in 1978 (Wang, 1992). The high rate of export growth boosted China's foreign exchange reserve holdings to $40 billion by mid-1991, sixth largest in the world. By the end of 1990 more than 29,000 investment contracts worth nearly $44 billion had been signed, $22 billion of which had been transferred China's foreign borrowing also mounted steadily, with external debt rising from less than $1 billion in 1978 to $53 billion in 1990. Indeed China's integration into the world economy has developed to a degree that most observers did not believe possible a decade ago (Perkins 1988, Nolan 1990).

One of the hallmarks of China's opening up the economy has been the spectacular growth

[1] Unless otherwise specified the data in this paper are based on Chinese statistics in ZGTJNJ (1991).

of China-US trade. After a twenty-year hiatus, China-US trade resumed in 1972,[2] but remained minimal until 1978. Since then two-way trade grew rapidly from $0.99 billion in 1978 to $11.77 billion in 1990, a more than ten-fold increase. The average annual growth rate of trade registered about 18 per cent in real terms during this period. China-US trade accounted for 10.2 per cent of China's total trade in 1990, whereas it amounted to 4.8 per cent in 1978 (DOTS 1991). The United States is now China's third-largest trading partner. China's exports to the United States increased steadily from in 1990 to $5.18 billion from $0.27 billion in 1978, except for a slight contraction in 1983. This upward momentum continued to grow despite the Tiananmen incident. As a result, the United States absorbed 8.3 per cent of total Chinese exports in 1990. Chinese purchases from the United States, however, have fluctuated widely, mainly due to changes in China's economic policies and the development of bilateral relations. In 1990 the United States provided 12.4 per cent of the country's imports. Related to growing trade, United States investment in China has increased significantly over the past decade. By the end of 1990 the United States ranked as the second largest investor behind Hong Kong and Macao, accounting for 10.1 per cent of total foreign direct investment in China. The amount of investment pledged had totaled $4.4 billion, with paid-in capital of $2.1 billion.

The dramatic advance of China-US trade since 1979 can be attributed to the following factors. First, China's subjection to the United States embargo due to the Korean War and its own 'self-reliance' policy had kept the level of trade at a small scale before the late 1970s. Thus, some of the surge since then can be regarded as taking up of past 'slack' and returning to the normal trade level between the two large countries. Second, the Chinese and American economies are complementary. American high-technology, capital goods, and industrial materials arc advanced, competitive and vital to Chinese development, while the United States is China's foremost export market. On the other hand, the United States not only demands Chinese textiles, toys, sporting goods, and food, but also sees China as a vast untapped market for its goods. This

[2] China-US trade relationship was interrupted by the Korean hostilities in 1950, when the United States prohibited all exports to mainland China. After President Nixson's trip to China in February 1972, the United States terminated the embargo. Consequently there was no official trade between the two countries during 1951-71.

symbiotic relationship has kept bilateral trade booming. Third China established diplomatic relations with the United States in early 1979. Since then both countries have solved the claims/assets issue,[3] a long outstanding problem which impinged on the full development of China-US trade. They have also concluded an overall Trade Agreement that year, providing reciprocal nondiscriminatory treatment for each country's products. During the 1980s there were frequent exchanges of visits by high-level government officials and trade issues were often discussed during these visits. The warming of China-US relations therefore benefited bilateral trade expansion. Fourth, China initiated an 'open door' policy in 1979. A number of policy instruments have been introduced to both import advanced technology and equipment from the United States and other developed countries, and to encourage exports. These innovative measures included the processing of imported components, compensation trade, opening of the special economic zones and coastal cities, devaluation of the RMB yuan, and decentralization of the foreign trade management (see Section 5). Moreover, Hong Kong investment in southern China (especially Guangdong province) increased sharply in the 1980s, involving the movement of labor-intensive and export-oriented projects from Hong Kong to the mainland As a result, these areas have been transformed into dynamic export-processing zones. This relocation has accelerated the growth of China's exports to the United States (see Section 4).

The acceleration of China-US trade since 1979, although welcome, was unevenly distributed among various years (see Figure 1). The years 1979-81 witnessed a rapid expansion, as China benefited from the normalization of diplomatic and commercial relations with the United States, and from growing United States interest in exporting technology and cheap agricultural goods to China. Beijing increased its purchases of wheat and cotton from the United States. It also substantially raised the imports of machinery and transport equipment from the country. Meanwhile, high oil prices on world markets enticed China to sell more crude oil to

[3] On December 17, 1950 the US government froze the Chinese assets of $80.5 million held in the United States, following the outbreak of the Korean War. In response China immediately announced the seizure of American property worth $197 million in China. Resolving this issue was critical to the expansion of China's exports to the United States since there was some concern that Chinese ships or aircraft could have been seized by American claimants.

the United States. Beijing's step to decentralize its trade structure after 1978 allowed the establishment of direct contact between Chinese producers and American customers. The introduction of the 'exchange rate for internal settlement' in 1981 also gave Chinese export enterprises certain incentives to stimulate exports. Consequently, China-US trade rose from $0.99 billion in 1978 to $6.19 billion in 1981.

During the period 1982-83, however, the China-US trade turnover declined, falling 3.8 per cent in 1982 and 27.3 per cent in 1983. Shrinking Chinese imports were primarily responsible. China's bumper harvests in those years reduced Chinese reliance on United States agricultural commodities. Chinese import restrictions, which were imposed to retaliate for United States limits on Chinese textile exports, caused United States agricultural products and crude material exports to decrease sharply.' China's economic readjustment policies? which deemphasized heavy industry in favor of light, held down purchases of United States manufactures. China's exports to the United States also declined in 1983. Recession and protectionism in the United States reduced demand for Chinese goods. Lower oil prices hurt China's oil exports. In order to implement the readjustment policies, Beijing introduced a trade licensing system and considerably revised its tariff system in 1982. This prevented local enterprises from selling abroad those agricultural commodities and raw materials in short domestic supply.

From 1984 to 1989, China-US trade resumed momentum. The economic recovery in the United States after 1983, despite being weak, may have contributed to the increase in United

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[4] At the end of 1982 the China-US textile agreement expired, after four unsuccessful rounds of negotiations to reach a new agreement. Under this condition the US government imposed unilateral controls on 32 textile and apparel categories. In response China announced that it would stop signing new contracts for delivery of US grain, cotton and synthetic fiber. As a result of the textile dispute, China's imports of grain from the U.S. fell in 1983.

[5] The readjustment policies adopted during 1979-82 aimed at solving the problems of macroeconomic imbalance in China. Under the readjustment, domestic investment was cut in order to stimulate consumption, agriculture, and light industry were given priority. Consequently, imports of capital goods and industrial supplies plummeted.

States demand for, and reduction in its trade barriers to, China's exports. During this period, Chinese authorities accelerated the pace of trade reforms. Beijing sharply devaluated its currency against the United States dollar in 1985-86, increased the proportion of foreign exchange earnings which could be retained by export corporations, granted local authorities greater autonomy over what they traded, and developed export-processing enterprises along the coast that capitalize on China's cheap labor and make use of foreign direct investment. These measures equally led to a rise in China's exports to the United States. As the Chinese readjustment policies ended, domestic investment recovered since late 1983, and this resulted in a resurgence of Chinese orders for United States capital equipment. United States agricultural sales to China also picked up since the mid-1980s, due to the American export subsidy program and poor Chinese harvests caused by bad weather and a fertilizer shortage. China-US trade thus hit an all-time high in 1989, with a reported value of $12.3 billion.

The rising tide of China-US trade ebbed in 1990, due entirely to the decline in Chinese imports. This reflected the adverse effects of both external and internal elements. Externally, the United States government imposed economic sanctions on China in the wake of Tiananmen in June 1989. Exports of high-technology have, therefore, been halted Internally, China adopted an austerity program to cool the overheated economy in the late 1980s. Since then Beijing has regained central control over import trade, slashed the number of authorized trade companies, required a large share of imports to be subject to import licenses, import substitution regulations, and bans, and tightened controls over foreign exchange allocation for imports. As a result, Chinese purchases from the U.S. decreased from $7.9 billion in 1989 to $6.6 billion in 1990.

3. **The Commodity Composition**

Apart from the rising share in China's total trade and its rapid growth, another manifestation of the impressive China-US trade since 1979 appears on an examination of its commodity composition. As the Chinese domestic economy grew during this period, agriculture diminished in importance relative to GNP while industry's weight was on the increase. The structural transformation of the economy, combined with the deliberate 'open door' policy, has resulted in a marked change in the China-US trade mix.

We first examine the degree of concentration of China's exports to the United States.

This can be obtained by calculating the Hirschman concentration index (H_x) in the following form:

$$H_x = \sqrt{\sum_{i=1}^{n} \left(\frac{X_i}{X_t}\right)^2} \qquad (3.1)$$

where X_i is the Chinese export value of commodity grouping i based on the Standard International Trade Classification (SITC) l-digit classification and X, is the total value of exports during the same period. The result obtained according to the above disaggregation indicates that the concentration in&x of China's exports increased from 0.50 in 1979 to 0.63 in 1987.6 The rise in concentration is not necessarily undesirable when commodities are grouped under such a broad classification, but it reflects the growing importance of manufactured products (relative to primary products) in China's exports to the United States (see below).

During the 1980s, the commodity composition of China's exports to the United States underwent significant changes, from traditional commodities to non-traditional light manufactures (see Table 1). In 1979 textiles (including yarn, fabrics and clothing) and petroleum products dominated China's sales to the United States, together accounting for about 50 per cent of China's total exports to the United States. While China-US trade expanded greatly in the first half of the 1980s, this traditional proportion still held fast. Textiles consistently accounted for 30-40 per cent, with petroleum products supplying another 15-25 per cent of Chinese exports. Beijing, however, has steadily diversified its export base far beyond its traditional strengths in recent years. Despite continuing momentum of these sales, the weight of textiles and petroleum products has tended to decline since the mid-1980s. In 1989, they made up only 28 per cent of China's total exports to the United States (Chen 1991). In the meantime, exports of light manufactures, telecommunications equipment, and consumer electronics have grown extremely rapidly. Among them, exports of shoes, travel bags, toys, and games have been most impressive, shooting up from $88 million or 3.9 per cent of total exports in 1983 to $3.1 billion, or 26.1 per

[6] The post-1987 decomposed data according to SITC l-digit classification are not available.

cent of the total, in 1989 (*China Business Review,* December 1991, p. *58). These* products are now among China's top export earners in its trade with the United States.

The increased diversification of China's exports over the past decade can be attributed to the following factors. First, this change partly reflects Beijing's attempt to minimize the costs caused either by domestic supply shortages or by unfavorable global conditions. The increase in China's exports of petroleum products was more rapid than its oil production between 1979 and 1985.' Thus, the priority to export petroleum products resulted in many domestic enterprises to operate below capacity due to fuel shortages. The sudden drop in oil prices on world markets in 1985-86 also caused a sharp reduction in the value of Chinese petroleum exports. China's textile exports were hampered by the volume quotas and quantitative restrictions in the United States. As China-US textile agreements were extended in 1983 and 1987, these restraints have increased to include all fibers and a wide range of textile products. The number of Chinese textile exports under United States controls rose from eight categories under the first agreement (1980-82) to 81 categories under the third agreement (1987-91), with the annual growth rate of quota limits declining from 4.2 per cent for the former period to 3.3 per cent for the latter. This has forced the Chinese to increasingly sell other products than they otherwise would on the United States market. Second, Chinese textile exports contain primarily low-end cotton goods while exports of petroleum products are primary commodities. In order to pay for the importation of advanced technology and equipment from the United States and other Western countries, China has tried to increase export earnings from its manufactures by moving onto high-value added, labor-intensive products in which China still has competitive advantage. Third, large numbers of export-oriented processing and assembly plants from Hong Kong, Taiwan and South Korea have moved onto the Chinese mainland since the mid-1980s. Attracted by its wages and operational autonomy, Hong Kong manufacturers have produced labor-intensive products in Guangdong province for the United States market. Moreover, rising wage rates and appreciating currencies in Taiwan and South Korea coupled with political detente between these regions and

[7] Oil production in China rose at an average annual rate of 2.6 per cent between 1979 and 1985, much lower than the growth rate of 15 per cent for the exports of petroleum products during the same period (calculated from ZGTJNJ 1991).

China have prompted many Taiwanese and Korean firms to explore China as an export platform for United States sales. Consequently, China has emerged as a potential source for light manufactures, such as footwear, travel goods, and toys and games, which United States importers had previously purchased from those three Asian NICs.

The degree of concentration of China's imports from the United States post-1979 can be obtained by calculating the Hirschman concentration index (H_m) in the following form:

$$H_m = \sqrt{\sum_{i=1}^{n} \left(\frac{M_i}{M_t}\right)^2} \qquad (3.2)$$

where M_i is the Chinese import value of commodity grouping i based on the SITC l-digit classification and M_t is the total value of imports during the same period. It shows that the concentration index for China's imports is lower than its export concentration index, implying that its import distribution was less concentrated Moreover, the import concentration in&x also exhibited an upward trend, rising from 0.49 in 1979 to 0.54 in 1987. Table 2 presents a breakdown of China's imports from the United States since 1979. From there two distinct changes can be identified: the declining importance of foodstuffs and crude materials, and the steady advance in the importance of machinery and equipment.

In the early 1980s China's imports from the United States consisted mainly of foodstuffs and crude materials, which accounted for more than 60 per cent of its imports. This share, however, subsequently receded, falling to about 12 per cent in 1986. While it increased in 1987, it never recovered, holding 20 per cent of China's total imports from the United States. The decline in the relative importance of foodstuffs and crude materials is largely attributable to the decrease in the United States exports of wheat and cotton to China. In 1980, China's imports of wheat and cotton accounted for about 45 per cent of its total imports. Their weight declined sharply in the first half of the 1980s. By 1987, the sham of wheat imports was only four per cent, and China had stopped purchasing cotton from the United States.

The decisive factor responsible for the declining trend was the success of China's rural reforms in the first half of the 1980s. The agricultural responsibility system, plus favorable

weather patterns, led to three consecutive years of excellent harvests between 1982-84. Grain output reached an all-time high of 407 million tons in 1984. China also became self-sufficient in cotton in 1982 and began to export in commercial quantities in 1983 for the first time.* This reduced the shortage of agricultural production at home and, consequently, Beijing substantially cut back on the imports of grain and cotton. The recovery of China's imports of grain from the United States after 1987 was due to its failure to meet grain production targets in the last few years. Natural disasters were no doubt partly to blame, but more serious was the impact of the latest policies? The measures adopted by the Chinese government in 1985 to replace the state monopoly purchase and supply system with the contract system lowered farmers' incentives to grow grain, leading to an excessive contraction of the area cultivated and, thus, the production of grain.

The recent years have witnessed a rapid growth of China's imports of machinery and transport equipment, and technology from the United States. The shipments of machinery and transport equipment totaled $230 million in 1979, or 15.5 per cent of Chinese total imports from the United States, but rose dramatically since then to reach $1.6 billion in 1987, or 46 per cent of the total. Among them, the leading imports were aircraft and parts, office and automatic data processing (ADP) machines, power generating equipment, and specialized industrial machinery. China's imports of high-technology items from the United States also expanded in the 1980s. While the number of United States export license approvals increased from 2020 in 1982 to 5724 in 1988, the value of Chinese actual imports rose from $630 million to $1.7 billion (United States Department of Commerce).

This rapid growth was caused mainly by two reasons. First, China still needs advanced machinery and technology to fulfil its modernization goals. While the Chinese authorities no longer consider self-reliance a viable short-term policy, they continue to emphasize effective ways

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[8] By 1985-6 China had emerged as the world's second largest cotton exporter.

[9] The other factors responsible for the decline in China's grain output were the decrease in agricultural investment, deteriorating irrigation and drainage capacities, and farmers' growing enthusiasm for working in rural industries because of higher incomes.

to substitute more domestic products for imports over time. Thus, the country's import priority will focus on more capital goods and technology. In this respect, China pays high regard for United States products. Second, prompted by United States interest in improving relations with China and mounting pressures from American exporters, the United States government eased its export control policy towards China in 1983. Since then it has gradually allowed more products with higher technical levels to be exported to China, and simplified export control procedures.[10] This has provided China with greater access to United States technology and equipment.

4. Hong Kong's Role in China-US Trade

A striking feature of China-US trade is the prominent role played by Hong Kong. This role is reflected in many aspects. First, China incurred a substantial trade surplus with Hong Kong, totaling more than $50 billion during the period 1979-89 (calculated from DOTS). This favorable trade balance provided Beijing with sufficient foreign exchange earnings to finance its trade deficits with developed countries (including the United States, if we assume that Chinese statistics are correct), from which China imported advanced technology and equipment to carry out its modernization program. Moreover, a large number of labor-intensive light manufacturing projects for the United States market moved their operations from Hong Kong to southern China in the 1980s. With this movement, lots of foreign capital, production know-how, and management expertise were also brought in. This has improved the marketability of Chinese products in the United States."

In addition, Hong Kong is an important entrepot for China-US trade. Although entrepot trade via Hong Kong existed between the two countries pre-1979, it became more notable in the 1980s. Increasing quantities of products from China and the United States are reexported to each other through Hong Kong. This development has had a significant impact upon China-US

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[10] Prior to June 1989, the United States was close to implementation of a distribution license procedure for China, which would allow multiple shipments under a single license. The move has been suspended due to the Tiananmen incident.

[11] According to Chen (1991), in the last few years US imports of Chinese light manufactures, especially footwear, toys, and consumer electronics, have grown sharply while US imports from Hong Kong of these products have declined.

bilateral trade. For example, one of the disputes between both sides refers to discrepancies of their respective data on trade balance. Beijing says it had a trade deficit of $1.4 billion with the U.S. in 1990, while Washington insists that China ran up a $10.4 billion surplus. The difference largely results from the reexports of substantial Chinese goods to the U.S. through Hong Kong, which Washington, unlike Beijing, counts as Chinese. It is, therefore, important to analyze Hong Kong's role as an entrepot when one examines the growth and structural change in China-US trade.

To begin with, a definitional note is in order. According to Sung (1990), entrepot trade is indirect; imports for reexports are consigned to a buyer in the entrepot and the buyer takes legal possession of the products after clearing customs. These imports may then be processed before being reexported. Processing may include packaging, sorting, grading, bottling, drying, assembling, decorating, or even minor manufacturing processes. Any processing that permanently changes the shape, nature, form, or utility of the basic materials used in manufacture makes the product a domestic export, not a reexport The drawback of the definition, however, is that it does not quantify the amount of added value necessary to change a product's country of origin.

China's reexports to the United States through Hong Kong have expanded rapidly since 1979. According to Hong Kong statistics, Hong Kong's reexports of Chinese-origin products to the U.S. increased from $340 million in 1980 to nearly $10.5 billion in 1990, a thirty-fold rise (see Table 3). This represents an annual average real growth rate of 37 per cent. In 1980, the United States absorbed about 20 per cent of China's total reexports through Hong Kong; it became the largest market for China's reexports in 1990, accounting for 34 per cent of the total. Since 1987, the value of Chinese reexports to the United States has even surpassed its direct exports to the country. The commodity composition of China's reexports through Hong Kong to the United States underwent significant changes during the period under study. In 1980, textile yarn and clothing were major reexport products, accounting for 43.5 per cent of China's total reexports to the United States. While they continued to grow, their share tended to decline. In 1990, clothing held only 18 per cent of the total. Taking their place as major reexports were toys and games, footwear, and telecommunications equipment. In 1990, these three categories accounted for 50.8 per cent of China's total reexports to the United States, whereas the sham was 31 per cent in 1984.

The same kind of dramatic growth can also be seen in United States reexports to China through Hong Kong (see Table 4). The value of United States reexports to China went from $68 million in 1980 to $1.3 billion in 1990, nearly a twenty-fold increase. Consequently, the share of the United States reexports to China in its total reexports through the territory rose from 10.7 per cent to 42 per cent during the same period. In contrast to China's reexports, United States reexports were more diversified and the commodity composition did not change considerably over the past decade: office machines and ADP equipment averaged about 15 per cent, with tobacco products accounting for another 10-15 per cent of the United States reexports to China. The remainder was made up of a wide miscellany of manufactured products including textile yarn, artificial resins, and electrical machinery and apparatus.

How do we explain Hong Kong's increasing role as middleman in China-US trade? Economic theory suggests that a middleman creates opportunity for trade because it is able to lower both transaction costs and transportation costs. An exchange structure in which numerous individuals trade with each other is generally inefficient because it increases the number of bilateral trade links and thus transaction costs. Under this circumstance, intermediation is desirable since establishing a bilateral trade links between economic agents usually involves a fixed transaction cost (Townsend 1978). Similarly, product heterogeneity increases customers' search costs in a marketplace with many sellers and therefore demand for intermediation (Stuart 1979). The long distance between suppliers and consumers also raises the attractiveness of intermediation, which emerges to economize on transportation costs. Moreover, a middleman that serves a large number of producers or customers can have economies of scale. When many traders agglomerate in a city, it tends to be easier to acquire necessary information and to arrange bilateral contracts, thus making the city even more efficient in trade (Sung 1990).

The demand for intermediation in China-US trade increased in the 1980s. Since 1979, China has decentralized its foreign trade system by replacing vertical channels of command with horizontal links. While twelve state-owned foreign trade corporations (FTCs) monopolized China's foreign trade during the pm-1979 period, the number of trading companies had increased to more than 1000 by the mid-1980s. This made it prohibitively costly for an individual American firm to establish trade links with all Chinese trading companies. Similarly, due to a lack of experience in foreign trade and the regulations restricting foreign traveling, Chinese

enterprises had difficulties in finding directly appropriate United States suppliers/customers and in negotiating (with them) prices and terms of delivery. Moreover, as examined in Section 3, during the 1980s manufactured products gained dominance while the share of primary goods decreased in China-US trade. Manufactures are usually more heterogeneous than primary goods, thus increasing search costs. Specifically, China's reexports of textile and clothing to the U.S. through Hong Kong reflected its attempt to make use of the territory's redundant quotas to expand the export of these restricted items.

There was a tendency that Hong Kong became increasingly integrated with the economy of south China over the past decade. During 1979-89, some 70 per cent of direct foreign investment in China came from Hong Kong, and almost 22,000 enterprises with realized capital of $15.4 billion were approved by the Chinese authorities. While being relatively small and medium-scale operations in Guangdong province, these investments mainly involved export processing activities. After product manufacturing, some were shipped back to Hong Kong for the high value-added processing or services, such as packaging and marketing.'* Thus, they constitute an important source of Hong Kong's reexports to the United States.

Hong Kong has many advantages of being a middleman in China-US trade. Located at the hub of dynamic Pacific Kim economies, close to the Chinese market, and blessed with a spectacular harbor, Hong Kong has all the natural tools needed to become an entrepot without other natural resources. The light hand of British administration has also enabled Hong Kong to enjoy free port status and a favorable business climate which rewards incentive, and nurtures local traders so that they have had a wide range of contacts with the enterprises and government officials in both China and the United States. Moreover, China and the United States have a very significant presence in Hong Kong. More than 900 United States companies, including major consumer goods manufactures and wholesalers, have offices in Hong Kong. Meanwhile, a large number of Chinese foreign trade corporations have set up their branches and virtually every

[12] For example, Hong Kong established numerous textile and garment factories in Guangdong province. Many products made by these factories were then sent back to Hong Kong, where they were finally processed by utilizing the relatively advanced technology and human skills in Hong Kong's textile industry, before being exported.

province and municipality in China (except Xinjiang and Tibet) has direct representation in Hong Kong. These have led to the dependency of the two countries on Hong Kong as entrepot for their bilateral trade.

5. China's Trade Policy

Since 1979, the Chinese government has clearly recognized the importance of foreign trade as a means to foster economic growth, even for a country as vast as China. The trade policy sails have been trimmed to encourage trade expansion, aimed at moving the country towards a high level of participation in the world economy. Of these measures, the most prominent are the currency devaluation and the decentralization of foreign trade management. Although the effect of each of these measures on China-US trade growth cannot be singled out, they are taken up separately below only for analytical convenience.

5.1 Currency devaluation

Possibly the single most important policy instrument affecting trade is exchange rate policy. Prior to 1978, however, the Chinese exchange rate had an unfavorable effect on its trade growth. First, the Chinese currency RMB yuan was substantially overvalued, although it is difficult to determine to exactly what degree vis-a-vis United States dollar.[13] This was reflected by the fact that in China's trade with the Western countries, when the foreign prices of traded goods were converted into the yuan at the official exchange rate, there generally existed losses in China's exports and profits in its imports. Second, during most of the pre-1979 period the official exchange rate was basically pegged at a given level, with very few adjustments. Subsequently, price changes either at home or abroad could exert little influence on the pegged rate. Moreover, real trade flows in China were centrally determined and were independent of the domestic price level. Thus, the exchange rate at best played an accounting role in Chinese trade.

[13] Mah (1972) estimated that the yuan was overvalued by more than 50 per cent by comparing the yuan and dollar prices of China's output of 186 commodities in 1951, weighted by Sino-West trade for each commodity. However, due to the inadequacy of available data, possible bias resulting from selection of sample and weight, and the irrationality of China's prices, his estimate can serve only as a first approximation.

The official administered exchange rate has been adjusted periodically since the early 1980s. During 1981-84, a dual exchange rate system was introduced. Under this system, the official exchange rate of 1.5 yuan per United States dollar was used for non-trade transactions while trade enterprises were allowed to convert their foreign exchange earnings into the yuan at an internal settlement rate (that is, 2.8 yuan per United States dollar). Over time, however, the gap between the two rates narrowed as adjustments were made to the official rate, and the internal settlement rate was abolished at the end of 1984. During 1985, gradual depreciations were witnessed: from January to October that year, there were depreciations almost every month, reducing the yuan from 2.8 per United States dollar to 3.2 per dollar and averaging 1.4 per cent in nominal terms. The yuan was devalued again by 14 per cent in July 1986. After the Tiananmen incident, Beijing sharply devalued its currency by 21 per cent against the United States dollar in December 1989, and a second devaluation of nearly 10 per cent followed in November 1990. Since then the official exchange rate has continued to depreciate to the current rate of 5.4 yuan per United States dollar (see Figure 2).

The Chinese experience of repeated and large devaluations since 1979 has some theoretical foundation. Economic theory suggests that devaluation is likely to promote trade expansion under the quantitative restrictions (QR) regime. First, to the extent that the devaluation absorbs premiums on import licenses, the domestic price of import-competing commodities will not increase. The increased price of foreign exchange will, therefore, be more fully reflected in the domestic price of exportables than in the domestic price of import-competing goods. Second, devaluations are usually accompanied by the removal of surcharges on imports and of subsidies on nontraditional exports. Because the preexisting export subsidies are usually smaller than the surcharge on imports, the effect is to make the net devaluation proportionately larger for exports than for import-competing commodities (Krueger 1978).

Practically, China's devaluation policy was based on at least three reasons. First, Beijing saw currency devaluation as a means of reducing its need to subsidize exports of manufactured goods. The domestic production costs of many Chinese manufactured products were greater than prevailing international prices when converted to domestic currency at the official exchange rate. Thus, the government's subsidies paid to the state trade corporations that lose money on these exports grew sharply. The currency adjustments had the effect of narrowing the gap between the

domestic production costs and international prices. Second, with the revival of the modernization drive, China needed to import heavy volumes of large-scale plant and equipment from the West. Given a limited amount of foreign loans due to ideological constraints, devaluation is used to stimulate exports in order to pay for mounting imports. Third, it was well-known that Taiwan and South Korea had successfully adopted the devaluation policy, among other measures, to promote trade and economic growth. The Chinese government was impressed with their experience and actively copied their method in the interest of development.

One crucial question concerning devaluation relates to the behavior of the real exchange rate (RER), which is defined as the domestic relative price of traded goods to nontraded goods. It has been argued that maintaining the real exchange rate at the 'wrong' level generates incorrect signals and severely hampers the degree of competitiveness of the tradables sectors (Edwards 1989). Generally, an increase in the real exchange rate makes the price of the tradables more expensive relative to the price of the nontrables. Thus, there will be substitution in production towards tradables and substitution in expenditure away from tradables. This, *ceteris paribus*, would generate an improvement in the balance of trade adjustment. Likewise a deterioration in the balance of trade adjustment may happen if the real exchange rate decreases. The real exchange rate here is measured in the following form:

$$\text{RER} = \frac{EWPI^*}{CPI} \tag{5.1}$$

where E is China's official nominal exchange rate defined as units of RMB yuan per United States dollar, WPI^* is the United States wholesale price index, and CPI is China's domestic consumer price index. The results indicate that the repeated devaluations in China have increased its real exchange rate from 1.49 yuan per United States dollar in 1979 to 3.32 yuan per dollar in 1990 (that is, real depreciations) (see Figure 2).

To test the hypothesis that exports depend on the real exchange rate, we estimate a multiple regression model expressed in the following equation:

$$\ln X_t = \beta_0 + \beta_1 \ln RER_t + \beta_2 t + \mu_t \tag{5.2}$$

$$\beta_1 > 0$$

where X, refers to the real value of China's exports to the United States, RER_t is China's real exchange rate (expressed in units of RMB yuan per United States dollar), t is a time trend, and μ_t denotes a random disturbance term, which it is assumed to be uncorrelated, with zero mean and constant variance. A basic assumption underlying the model is that the supply of China's exports is perfectly elastic. That is, despite increased Chinese exports to the U.S., export prices of these goods remain fixed and exporters pass through to importers the full amount of the real exchange depreciation. This assumption seems reasonable because China's share of United States imports is small. Equation (5.2) is estimated by ordinary least squares (OLS) using the data during the period 1979-90. The results are presented in equation (5.3).[14]

$$\ln X_t = \underset{(-4.32)}{-0.40} + \underset{(3.59)}{0.40}\ln RER_t + \underset{(14.21)}{0.12}t \qquad (5.3)$$

$R^2 = 0.98$ F-statistic = 216.25
$DW = 2.36$

The regression equation fits well because the F-statistic is significant at the five per cent level. The estimate of the coefficient of RER variable β_1 is positive and statistically significant at the five per cent level. This indicates that the real devaluations of the yuan during this period have accelerated the growth of China's exports to the United States.

When one evaluates China's experience of currency devaluation in the post-1979 period, several points should be noted. First, a nominal devaluation cannot promote export expansion, unless the nominal exchange rate depreciates at a rate greater than the rise in the price of the nontradables so that the real exchange rate increases. Over the past decade, China repeatedly devaluated the yuan to reduce the erosion of domestic inflation. This reinforced the competitiveness of China's exports on world markets. However, the overheated economy and, consequently, severe inflation in the late 1980s resulted in an excess demand for nontradables and a rise in production costs for tradables in China. Under this circumstance, many Chinese manufacturers preferred to produce for the domestic market rather than for overseas. Second, a change in the real exchange rate is a necessary, but not sufficient, condition for trade growth

[14] In this section, the figures in parentheses under the equations are t-ratios unless otherwise specified.

in the short-term because it depends, among other factors, on the supply elasticity of the trade goods sector. Strong government intervention in China has enabled the transfer of substantial resources into the export sector after the real exchange rate depreciations. This, in conjunction with Chinese policy to allow exporters to retain a certain proportion of their foreign exchange earnings (see next subsection), seems to have stimulated China's supply of exportables. Third, it is improbable that the exchange rate will play a significant role in a traditional centrally-planned economy since state-run trade enterprises are not completely responsible for their profits and losses. Even during the 1980s, the Chinese government still controlled the majority of traded commodities. This means that Chinese trade enterprises will have reduced interests in responding to devaluation unless they can fully enjoy the benefits from it.

5.2 **Decentralization of foreign trade management**

Prior to 1978, foreign trade was a state monopoly in China. The supreme agency for supervision and planning of foreign trade was the Ministry of Foreign Trade (MOFT), and twelve foreign trade corporations (FTCs) were formed under the MOFT, each specializing in a particular range of traded goods or dealing with some supplementary aspect of trade. As exclusive agents, these FTCs and their local branches handled the actual import and export business in China. Neither other individuals nor other firms were allowed to trade directly with foreign countries. Foreign trade was conducted in accordance with state mandatory plans as a means of keeping balance in the Chinese economy. Exports were purchased by the FTCs and imports were carried out in the form of an allocation system. The FTCs had to surrender all the foreign exchange earned from export to the central bank, and the government was responsible for their losses.

Although the state monopoly of foreign trade enabled the Chinese authorities to amass scarce foreign currency to acquire necessary capital goods and raw materials, it impeded China's trade growth. First, under this system the tradable goods sector of the domestic economy was effectively insulated from the rest of the world Consequently, imports were not well suited to Chinese needs, and Chinese exporters could not easily learn how to adapt their products for foreign consumption. Moreover, trade negotiations through the FTCs tended to be prolonged so that neither exporters nor importers could react quickly and efficiently to changes in the world market. Second, since the central government assumed sole responsibility for their profits and

losses, both trading and producing enterprises had no incentive to increase trade and reduce costs, and restricted themselves to passively fulfilling the trade plans made by the higher authorities.

In the late 1970s, the leadership decided that unless China's foreign trade management is decentralized its foreign trade could not be expanded and the efficiency of the tradable goods sector could not be improved. In addition, some Eastern European countries (such as Hungary) had carried out reforms of their foreign trade structures, and suitable corporations had been given the right to deal directly with foreign countries. This was regarded by Chinese policymakers as a useful model to follow. Moreover, because they possessed significant experience and resource in conducting foreign trade, many localities (for example Guangdong and Shanghai) began to display both greater eagerness and ingenuity in doing their own business with foreign firms. Pressure from them was another factor behind Beijing's move.

Beijing attempted three times to decentralize its foreign trade management between 1978-90. The first wave of decentralization lasted from 1978 to mid-1981. During this period, the government permitted individual provinces, municipalities, and industrial ministries to set up their own trade companies. Bypassing the FTCs, these companies had the authority to export or import the products under their respective jurisdiction. They were also allowed to retain up to 30 per cent of the foreign exchange earnings for their own use, rather than remit them fully to the state as was previously required Moreover, Beijing opened four special economic zones (SEZs) in southern China, where preferential tax and tariff rates and tax holidays were offered to attract direct foreign investment and promote exports. From mid-1981, however, the government tightened central management of foreign trade to solve the problem of the trade deficit. Consequently, the FTCs regained authority over many commodities which had previously slipped into the hands of localities or ministries.

The second round of decentralization began in September 1984, when the government launched a comprehensive reform of trade structure. The reform mainly included: (i) the Ministry of Foreign Economic Relations and Trade (MOFERT) lost direct managerial authority over the state FTCs, and was only in charge of trade policy-making and world market research. Actual activity in foreign trade was carried out by a variety of specialized trading companies; (ii) the number of products subject to mandatory plans was significantly reduced; (iii) an agency system was introduced to replace the old purchase system of acquiring goods for export. Under

the agency system, the trading corporations served for the producing enterprises in the marketing of their products abroad. While they were charged for this service, the producing enterprises, and not the trading corporations, were to bear any losses incurred in the process. Moreover, Beijing opened 14 coastal cities and Hainan Island to foreign investment and permitted local authorities to sign trade contracts with foreign firms. While it stimulated trade growth, China suffered an unprecedented trade deficit and decreasing foreign exchange reserves in 1985. As a result, Beijing reasserted control over the trade sector by reestablishing mandatory quotas for exports, closing down more than a thousand local trading companies, and imposing taxes, tariffs and licenses against imports.

The third wave of decentralization occured during 1987-88. Beijing granted local branches of central trade corporations greater autonomy over what they traded, replacing volume quotas with contractual targets for earnings and profits. Beijing also billed factories directly for their imports and permitted several hundred export-producing factories to sign sales contracts directly with foreign customers. Moreover, the shares of foreign exchange earnings retained by domestic enterprises in several industries and some regions were raised, with shares for enterprises affected positively with the degree of processing of the commodities exported and reaching as high as 100 per cent.[15] This wave was reversed in late 1988 as the government started the austerity program to cool the heated economy, and invoked administrative measures to re-centralize trading authorities. Since then, the number of authorized foreign trade corporations has been slashed, and a larger share of imports and exports has been subject to licenses, quotas, and bans.

Despite being, at times, interrupted by attempts at recentralization, the efforts towards the decentralization of foreign trade management have been considerably creditable. There are now a large number of provincial and municipal trading corporations responsible for serving the enterprises in their localities, as well as ministerial trading firms authorized to export the products

[15] By 1988, the Chinese government permitted exporters of light industrial goods, arts and crafts, and garments to keep 70 per cent of the foreign exchange earned from exports, and the machine-building and electronics industries to retain 50 per cent. The SEZs and Hainan Island were granted the right to retain 100 per cent.

made by their industries. In contrast to the late 1970s, when several state FTCs monopolized foreign trade, the non-FTCs exported products worth $10.4 billion in 1990, accounting for nearly one-fifth of China's total export value (see Table 5).[16] Looking at the proportion of export increment during the period 198190, the progress of decentralization appears mote impressive since the value by non-FTCs amounted to 25 per cent of China's total.

It is hypothesized that decentralization of foreign trade management, an institutional change, would give domestic enterprises incentives and freedom to promote foreign trade. In or&r to test the hypothesis, we estimate the equation (5.4).

$$\ln T_t = \alpha_0 + \alpha_1 D_{t-1} + \alpha_2 t + \mu_t \qquad (5.4)$$

D = 1, in 1979-81, 1984-5, and 1987-8
0, in 1982-3, 1986, and 1989-90

where T_t refers to China's total trade value with the United States, and t is a time trend D_{t-1} is a dummy variable, which is set equal to one for the time period when the trade management was decentralized and zero otherwise. D_{t-1} is lagged for one period, which can be justified by the fact that it usually takes time for trading enterprises to respond to the institutional changes. Data are for the period 197990. By using OLS method, we report the results in equation (5.5).

$$\ln T_t = \underset{(12.71)}{1.27} + \underset{(3.17)}{0.22}\, D_{t-1} + \underset{(8.27)}{0.08}\, t \qquad (5.5)$$

$R^2 = 0.90$ F-statistic = 20.34
$DW = 2.05$

The dummy variable coefficient in equation (5.5) is positive and statistically significant at the five per cent level. This indicates that decentralization of foreign trade management seems to have increased China's trade with the United States. To examine the effects of institutional changes on China's exports and imports respectively, we estimate the equations (5.6) - (5.7) as follows.

[16] The data are obtained by subtracting the export value for each year in *Almanac of China's Foreign Economic Relations and Trade* from that in *ZGTJNJ*, since the former refers to the exports conducted by the FTCs only whereas the latter originates from the records of the Chinese customs department.

$$\ln X_t = \underset{(-2.04)}{-0.33} + \underset{(2.24)}{0.33}\ln RER_t + \underset{(0.76)}{0.04}D_{t-1} + \underset{(19.70)}{0.12}t \qquad (5.6)$$

$R^2 = 0.99$ F-statistic = 98.40
$DW = 2.23$

$$\ln M_t = \underset{(7.48)}{0.90} + \underset{(3.93)}{0.35}D_{t-1} + \underset{(5.46)}{0.06}t \qquad (5.7)$$

$R^2 = 0.81$ F-statistic = 10.19
$DW = 1.99$

The estimate of the dummy variable in equation *(5.7)* is statistically significant at the five per cent level, while that in equation *(5.6)* is not significantly different from zero even at the ten per cent level. This denotes that, given these data and the methodology used, the decentralization of foreign trade management in China has only produced significant impact upon its imports from the United States.

The advent of decentralization, however, was far from an unalloyed blessing. Several problems have been identified from the past experience. Fit, in the wake of decentralization China's exports increased steadily while its imports took an unexpected jump. Consequently, trade deficits ballooned and foreign exchange reserves dropped precipitously. On each occasion, when the trade deficit grew at an alarming rate, Beijing stepped in to regain some of trade authority it had relinquished. This results mainly from the irrational price structure in China. At the current exchange rate, the domestic prices of manufactures appear to be higher than world prices. Once the central oversight of trade was relaxed, Chinese enterprises preferred to import from abroad rather than to sell their products on the competitive international market. Second, decentralization worsened quality-control problems for many relatively fungible goods such as foodstuffs, minerals, cashmere, and fireworks, as it put trade of these products in the hands of Chinese agencies (also associated with Hong Kong middlemen) with neither experience nor scruples." Third, decentralization without effective regulations led to a marked decline in

[17] For example, several injuries caused by sub-standard Chinese fireworks have led to product confiscations by the US Consumer Product Safety Commission and hikes in insurance premiums for US importers (China *Business Review,* January 1990).

reliability of delivery. Since Chinese enterprises could retain a certain proportion of foreign exchange earnings from export, it became common that they broke contracts with foreign customers and Chinese sales agencies if another buyer offered a better price.

6. **Conclusion**

The salient points to emerge from the analysis of the growth and structural change in China-US trade post-1979 can be summarized as follows.

First, the slow growth of world trade has not constituted a binding constraint on China-US trade development. Global recession in the early 1980s was followed by the weak recovery. In addition, protectionism against the commodities in which China has a comparative advantage increased sharply. Although such an unfavorable international environment might reduce the import demand for the products of the two countries, China-US trade continued to grow. This results partly from the complementary nature of the two economies. While Beijing sees the United States as the most important source of advanced technology and equipment, Washington regards China as a vastly untapped market for its exports. In part, this growth was achieved through the competition effect, By price competition and quality upgrading, each of the two countries has steadily eaten into the market of the other.[18] Therefore, it is believed that flexibility and ability to compete will maintain the momentum of China-US trade.

Second, the governments of the two countries played a positive role in promoting China-US trade growth. Since 1979, much progress has been made in developing a framework for normal commercial relations between China and the United States. This framework was largely built through government-to-government agreements and consultations. Of course, the role required of governments is different in different countries and at various times. During the post-1979 period, China did decentralize its trade system, but various types of state intervention were also pursued for promoting trade: the real exchange rate rose rapidly as a result of repeated devaluations, and the government's policy to allow localities and enterprises to trade with foreign countries paid off handsomely. In addition, Beijing provided information on world markets and

[18] This is exemplified by the fact that China's share of the US imports from all LDCs rose from 0.7 per cent in 1979 to 7.7 per cent in 1990 while the US share of China's imports from all DCs increased from 16.8 per cent in 1979 to 25.3 per cent in 1990.

organized purchases and sales of products. China's trade with the United States can grow dramatically only when trade policies are favorable.

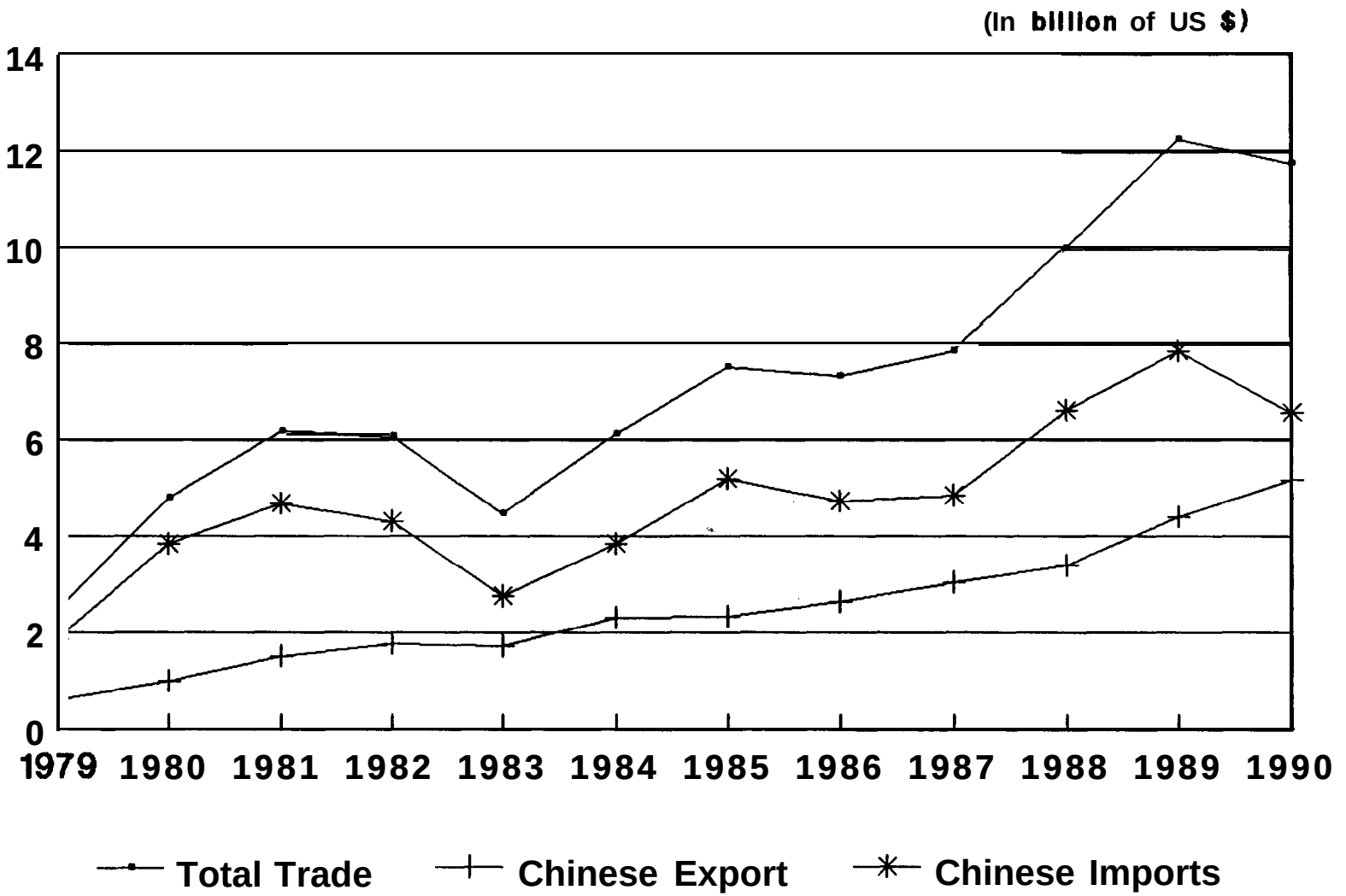
Third, despite an expansion of its exports to the United States, China does not seem to follow an export-led strategy. In recent years, there has been rising concern in the United States that China's continued export expansion would disrupt their domestic enterprises and markets. This anxiety, which has prompted protectionist sentiment, may be somewhat excessive since China accounted for only one per cent of United States imports in 1990. In contrast to small economies, exports cannot represent a decisive factor to sustain the momentum of development for China. Chinese economic growth in the 1980s was mainly fueled by domestic forces. China's ratio of export to GNP was about 17 per cent in 1990, remaining far below those of East Asian neighbors who actually do engage in export-led **growth.**[19] It is estimated that the total employment generated by industrial exports in the late 1980s accounted for less than one-quarter of China's total industrial employment (Wang 1992). Therefore, while China should make its administrative and market practices more transparent and simple for the United States imports, the United States should resist the forces of protectionism.

Fourth, China-US trade cannot be further expanded without the reciprocal granting of most-favored-nation status. Over the past decade MFN status was the cornerstone of China-US trade growth. This year, however, has seen an intense debate in the United States regarding the extension of China's MFN status. Stripping China of its MFN status would severely damage the bilateral trade relationship. Should it happen, China's exports to the United States would be reduced due to a sharp rise in tariffs. The loss of foreign exchange, resulting from depressed sales to the United States, would complete the vicious circle by making it difficult for China to afford imports from the United States. United States consumers would also suffer because they had to pay higher prices for Chinese goods. Since MFN is a reciprocal relationship, United States exports to China would fall if Beijing retaliates and increases its tariffs. Among those hit hardest would be aircraft, agricultural pesticides and fertilizers, and grain. This would have a negative impact upon the United States domestic economy, which is currently afflicted with a

[19] For example, the ratios of export to GNP in 1990 were 27 per cent in South Korea, 73 per cent in Malaysia, and 29 per cent in Thailand (calculated from IMF: *International Financial Statistics).*

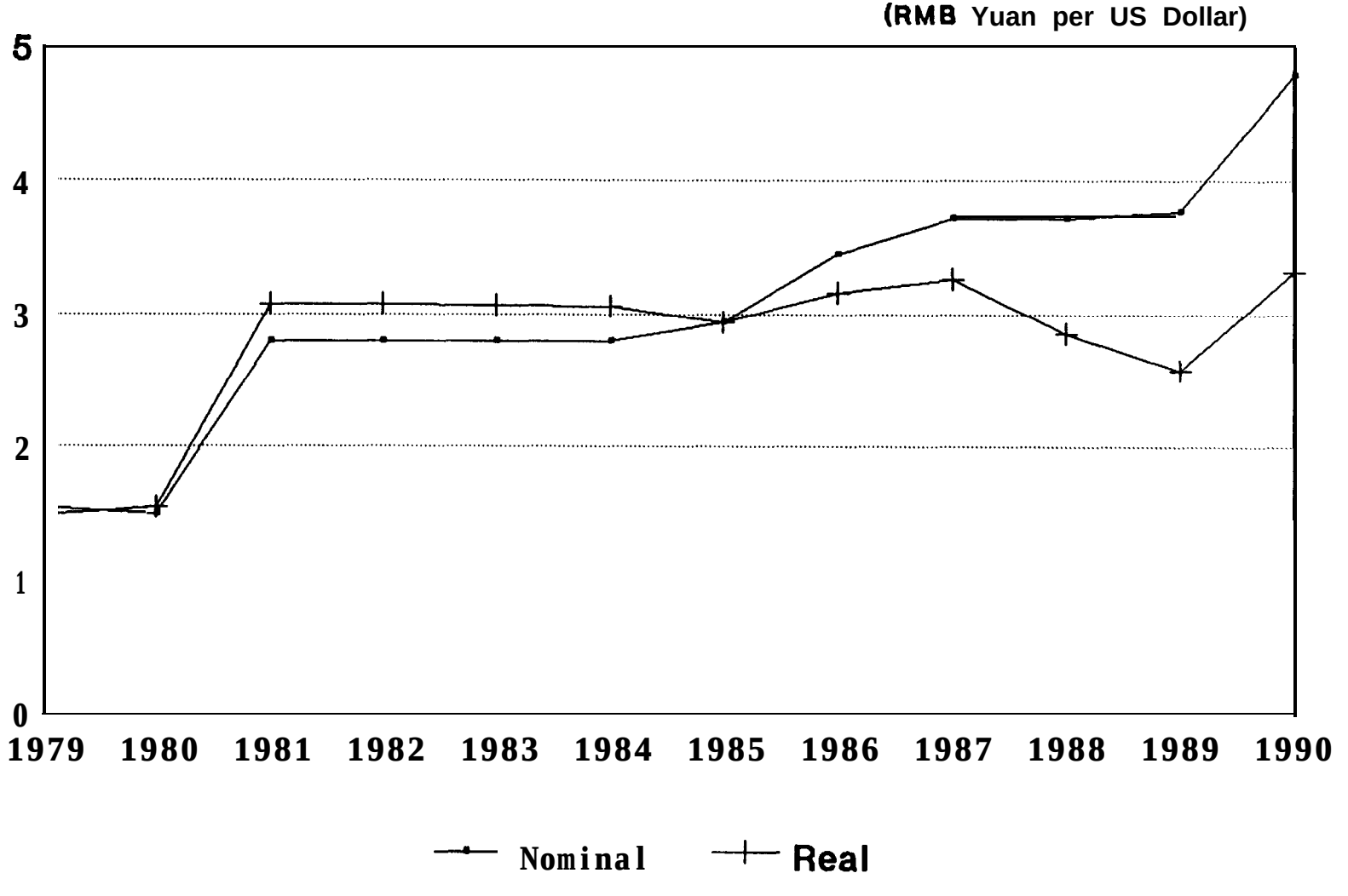
contained depression (Jay Levy and David Levy, 1992). Removal of MFN would be a 'body blow' to Hong Kong, depriving it of the benefit of handling enormous shipments of goods from China annually, and turning much of its investments (and United States investments) in southern China sour. Moreover, revocation of MFN could backfire on the United States and create ripples that would reach far beyond the economic relations between the two countries.

Figure 1. China - US Trade, 1979-90



Source: IMF: Direction of Trade Statistics Yearbook, various issues.

Figure 2. China's Exchange Rate, 1979-90



Source: My oalculatlon by **using** data In **ZGTJNJ** and **IMF:** **International Financial Statistics.**

Table 1. Commodity composition of China's exports to the U.S. (1979 - 87)

(percentage of total)

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Foodstuffs	8.9	5.6	5.2	5.5	5.2	4.9	4.2	4.2	4.4
Crude materials	27.9	25.0	33.1	31.5	23.6	24.6	28.9	15.7	10.0
of which, petroleum & products	16.1	12.8	15.5	26.2	19.1	20.7	25.6	13.4	7.6
Chemicals	10.1	10.2	6.6	6.0	5.8	5.2	4.2	3.7	3.2
Semi-manufactured goods	15.4	22.3	19.8	16.9	17.4	18.9	15.7	14.7	14.6
of which, textile fabrics	8.6	8.9	9.3	7.7	7.9	9.4	7.0	7.9	6.6
Machinery & equipment	0.2	0.5	2.1	2.1	1.8	2.2	2.3	2.9	6.9
Other manufactured goods	36.8	36.1	32.8	37.8	45.8	43.6	43.6	56.9	59.7
of which, clothing	25.4	23.6	22.3	27.8	34.5	29.4	25.1	35.8	31.6
footwear, toys & games	2.6	2.4	2.7	3.0	3.9	6.2	11.7	13.4	18.3
Others	0.7	0.3	0.3	0.3	0.5	0.6	1.1	1.8	1.1

Sources: 1979: Hsu (1989), p. 97.
1980-7: USCIA: *China: International Trade Quarterly Review.*

Table 2. Commodity composition of China's imports from the U.S. (1979 - 87)

(percentage of total)

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Foodstuffs	28.2	33.7	37.0	42.5	24.9	19.3	2.7	0.9	7.6
of which, wheat	12.4	27.7	35.2	35.9	17.4	19.1	2.5	0.2	4.0
Crude materials	33.1	33.6	31.3	20.6	13.8	15.6	14.9	11.9	12.7
of which, cotton	20.7	18.7	12.9	6.1	0.2	0.1	0.0	0.0	0.0
Chemicals	7.3	10.3	11.3	17.1	16.3	21.5	13.0	14.2	23.2
Semi-manufactured goods	14.1	11.3	12.4	9.5	10.1	6.3	9.6	6.6	6.7
Machinery & equipment	15.5	9.5	6.9	8.8	31.0	33.8	55.8	60.9	45.9
of which, aircraft	0.4	4.1	0.2	0.7	10.8	3.8	17.1	9.5	13.9
ADP	n.a.	0.6	0.5	0.9	1.8	2.7	4.1	6.3	4.3
Other manufactured goods	1.9	1.5	0.9	1.4	3.6	3.3	3.6	5.0	3.2
Others	0.0	0.1	0.1	0.1	0.3	0.3	0.4	0.5	0.7

Sources: 1979: Hsu (1989), p. 97.
1980-7: USCIA: *China: International Trade Quarterly Review.*

Table 3. China's re-exports of major commodities to the U.S. via Hong Kong (1979 - 90)

(in million U.S. $)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total	147	340	503	589	758	1123	1445	2392	3558	5540	8461	10482
Clothing	46	115	148	232	305	382	492	980	984	1087	1632	1930
Textile yarn & fabrics	14	33	44	31	40	52	49	n.a.	n.a.	n.a.	n.a.	n.a.
Toys & sporting goods	28	58	82	92	124	285	414	627	1070	1646	2491	3081
Footwear	n.a.	n.a.	n.a.	n.a.	n.a.	34	37	62	139	319	632	1161
Travel goods	n.a.	n.a.	16	27 I	49 I	98	155	205	324	464	n.a.	n.a.
Telecommunications equipment	n.a.	n.a.	n.a.	n.a.	n.a.	34	27	62	2399)	496	992	1077
Electrical machinery	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	20	53	152	460	688	826

Source: Hong Kong Review of Overseas Trade *(1981-90)*, Census and Statistics Department, Hong Kong.

Table 4. The U.S. re-exports of major commodities to China via Hong Kong (1979 -90)

(in million of U.S. $

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total	26	68	101	170	203	375	575	567	792	1228	1316	1320
Tobacco products	1	5	11	12	21	33	48	65	91	167	213	147
Office machines and ADP	n.a.	7	6	13	21	74	90	109	190	170	149	136
Textile yarn and fabrics	1	2	11	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	28	62	94
Artificial resins	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12	26	74	256	141	139
Electrical machinery.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	29	34	69	78	n.a.

Source: *Hong Kong Review of* Overseas *Trade (1981-90)*, Census and Statistics Department, Hong Kong.

Table 5. Channels of China's exports, 1978 - 90

(value in billion of U.S. $)

Year	Total Exports	Exports by non-FTCs		Exports by FTCs	
		value	share(%)	value	share(%)
1978	9.75	---	---	9.75	100.0
1981	22.01	1.12	5.1	20.89	94.9
1982	22.32	0.50	2.2	21.82	97.8
1983	22.23	0.03	0.1	22.20	99.9
1984	26.14	1.72	6.6	24.42	93.4
1985	27.35	1.44	5.3	25.91	94.7
1986	30.94	3.93	12.7	27.01	87.3
1987	39.44	4.84	12.3	34.60	87.7
1988	47.54	7.44	15.7	40.10	84.3
1989	52.54	9.10	17.3	43.44	82.7
1990	62.06	10.36	16.7	51.70	83.3

Note: The data for the period 1979-80 are not available.

Sources: *ZGTJNJ* and Almanac *of Foreign Economic Relations and Trade,* Bejing.

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