

The Foreign Trade of the People's Republic of China in the period 1979-1989

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Until 1979, the foreign trade of the People's Republic of China (PRC) was entirely carried out by a small group of state-owned foreign trade enterprises that worked under the strict supervision of the Ministry of Foreign Trade.¹ Several foreign trade reforms have been implemented in the PRC since 1979. Among other things, the reforms notably changed the institutional background of Chinese foreign trade. The foundation of new, special institutions in the field of foreign economic relations became one of the first steps in the reform process. Back in 1979, the Import-Export Administration Commission (IEAC) was established as a new authority mainly responsible for “particular trade” which was not connected with foreign direct investment. The primary goal of another new institution, China International Trust and Investment Corporation (CITIC), was to increase foreign direct investment. Some other important special bodies appeared, e.g. Foreign Investment Administrative Commission (FIAC) and State Administration of Foreign Exchange. The FIAC, IEAC and Ministry of Foreign Trade merged in the Ministry of Foreign Economic Relations and Trade (MOFERT) in March 1982.²

¹ For more details on foreign trade in the period 1949–1978, see REARDON, Lawrence C., *The Reluctant Dragon. Crisis Cycles in Chinese Foreign Economic Policy*. University of Washington Press, Seattle 2002.

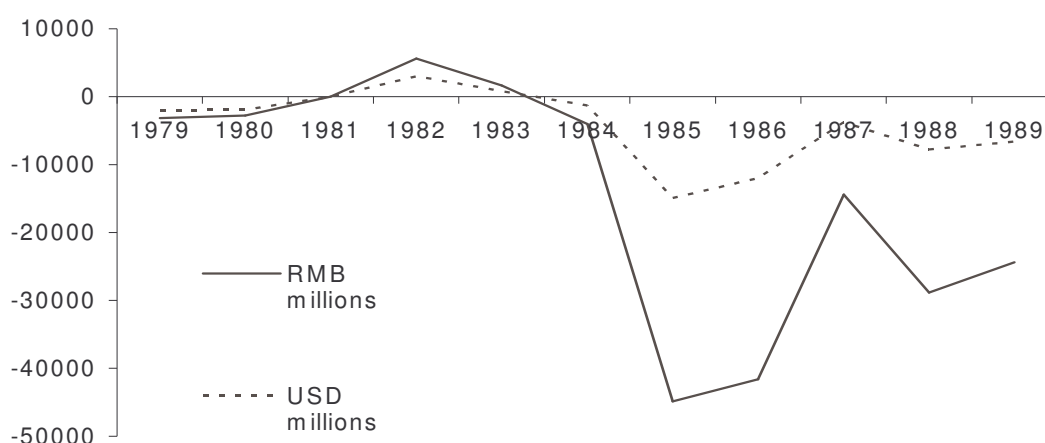
² SRINIVASAN, T. N., *Agriculture and Trade in China and India*. International Center for Economic Growth, San Francisco 1994, p. 123. Afterwards, the MOFERT was renamed to Ministry of Foreign Trade and Economic Cooperation (MOFTEC). Finally, the current Ministry of Commerce (MOFCOM) has been a successor of the MOFTEC.

The general decentralization, creating a market environment and increasing competition, belonged to the main objectives of the foreign trade reforms. At the turn of the 1980s, the decentralization was supported by a growing number of foreign trade enterprises that were not controlled by the Ministry of Foreign Trade – e.g. some of them were created by other Beijing ministries or provincial authorities. Even the first industrial concerns received both export and import licenses. Several hundred foreign trade licenses had been already issued by the end of 1980.

Despite the growing number of licenses, the decentralization process advanced slowly during the first reform years. More than two-thirds of the Chinese foreign trade was still carried out by a narrow group of foreign trade enterprises in the first half of the 1980s. The actual form of the foreign trade regime varied according to individual trade commodities. As far as export was concerned, three basic commodity groups were defined. The first commodity group consisted of the most significant commodities such as oil, coal and grain. This group had a very large share (about 80 %) of the total volume of the Chinese foreign trade in the first half of the decade. Only few national “elite enterprises” obtained the necessary license and could export the commodities from the first group. Compared to the first commodity group, the second one was connected with a rather more moderate license regime and contained more items. The fairly wide range of enterprises (including provincial and regional entities) gained an export license and started with exporting the commodities from the second commodity group. The most liberal regime was applied to the third commodity group and it could be – under certain circumstances – actually changed by local authorities in different regions. As for the import, the situation was quite similar. Analogous to export, imports were divided into particular commodity groups with

relevant license regimes. In fact, the Chinese government cautiously guarded the imports and mainly controlled the cases where hard currency was used.³

Figure I: The Trade Balance of the PRC in the Period 1979-1989



Source: *Comprehensive Statistical Data and Materials on 50 Years of New China*, China Statistics Press, Beijing 1999, p. 60.

The second phase of the foreign trade reforms started in 1984. The Beijing government began to deal with the problem of huge export subsidies. Export performance lagged behind in the first half of the 1980s, partly because of the yuan's overvaluation against the U.S. dollar. With respect to the macroeconomic situation, the planned reduction of export subsidies seemed to be a very controversial measure. The new government export strategy and increasing prices in the Chinese market forced many Chinese producers to limit their exports and extend their domestic sales in 1985. Soon, these events adversely affected the trade balance

³ For details, see *China: Foreign Trade Reform*, A World Bank Country Study, The World Bank, Washington D. C., 1994, p. 25.

(see figure I). In spite of repeated devaluation of the yuan against the U.S. dollar, the trade balance of the PRC resulted in a painful deficit in the years 1985 and 1986. Unfortunately, the Chinese government had to postpone some planned reform measures which included a restriction on export subsidies.

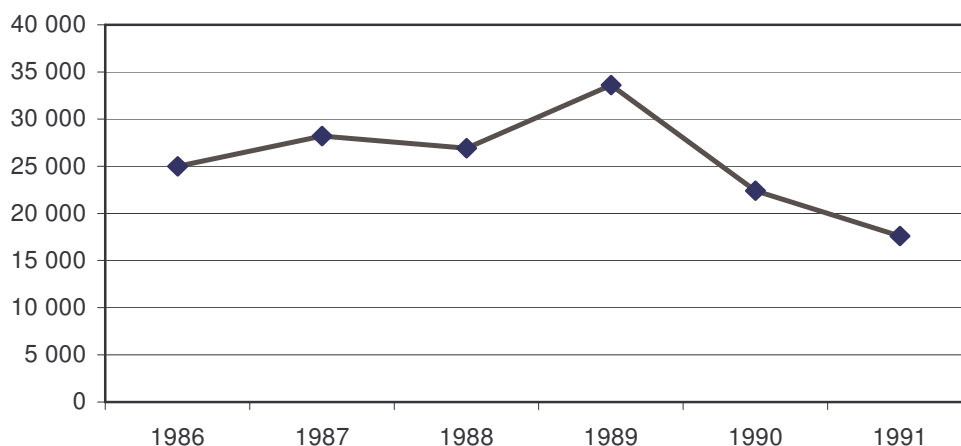
The growth of the number of economic entities authorized for both export and import accelerated in the middle of the 1980s. Many former branch offices of national foreign trade enterprises were transformed into independent companies. In provinces, some new foreign trade enterprises began to focus on selected regions and tried to meet the specific needs of their market. Concerning export, these provincial enterprises started to exploit comparative advantages of the selected regions. However, this somewhat spontaneous process brought some unfavorable consequences – e.g. a growing number of unreliable enterprises that were not able to meet their liabilities. Hence, the Chinese government tightened up the supervision of foreign trade, and the number of economic entities authorized for foreign trade temporarily decreased in the period 1988–1991.⁴

In 1988, another foreign trade reform was launched and it became “a revolutionary measure”. The notable change in the contractual relationships between the Beijing government and foreign trade enterprises came to be one of the main results of the reform. The foreign trade enterprises concluded new agreements with the MOFERT that included – among other things – several essential articles concerning: 1. scheduled foreign exchange receipts 2. the portion of the foreign exchange receipts

⁴ ZNAMENÁČEK, Martin, *Čínská ekonomika – hlavní změny a perspektiva*. Vysoká škola ekonomická v Praze, Praha 1996, p. 61. During following years, the number of authorized enterprises grew again. For details, see LARDY, Nicholas R., *Integrating China into the Global Economy*. Brookings Institution Press, Washington D.C. 2002, p. 41.

that should be passed to central government 3. the fixed sum (in yuan) that would be provided by the central government to cover contingent financial loss originating in export sales. The foreign trade enterprises received the sum as a government subsidy (for government subsidies for foreign trade enterprises in the period 1986–1991, see figure II). Likewise, the central government set a sum total that would be paid to all foreign trade enterprises and scheduled a procedure of subsidy distribution to both provinces and individual regions. The mentioned agreements became a significant tool for the central government while controlling foreign trade and reducing export losses.⁵

Figure II: The Losses of Foreign Trade Enterprises Covered by the Central Government in the Period 1986–1991 (USD millions)



Source: *China: Foreign Trade Reform, A World Bank Country Study*, The World Bank, Washington, D. C. 1994, p. 26.

At the end of the 1970s, a quite new phase in the development of the PRC's foreign trade started and it brought an unusual growth dynamic. The

⁵ For more details on the foreign trade reforms in the 1980s, see LARDY, Nicholas R., *Foreign trade and economic reform in China, 1978–1990*, Cambridge University Press, Cambridge 1992.

monetary expression of the total volume of the foreign trade increased approximately four fold during the period 1979–1989 (from 29 to nearly 112 billion USD).⁶ The average annual growth of the PRC's foreign trade reached about 10 % in 1980s, markedly exceeding the world average.⁷ Thus, the PRC ranked among the states with the best growth dynamic of the foreign trade in the 1980s⁸ (for the development of the PRC's foreign trade, see table I).

The role of the expanding foreign trade in the national economy gradually changed. Step by step, the impact of export performance on the gross output of the Chinese economy grew and many factories became more dependent on their export results. The export's share in GDP increased from 5 % in 1978 to about 13 % in the second half of the 1980s and it even reached almost 20 % at the turn of the 1990s⁹. The export performance turned into an important growth determinant in the Chinese economy. Analogous to exports, the imports usually showed a quick growth. Hence, the ratio of total foreign trade to the nominal GDP changed. Foreign trade's share in the nominal GDP moved from 13 % in 1980 to nearly 40 % in the beginning of the 1990s.¹⁰

⁶ *Statistical Yearbook of China 1993*. China Statistics Press, National Bureau of Statistics, Beijing, p. 635 and *China Foreign Economic Statistical Yearbook 1999*. China Statistics Press, China Statistical Publishing House, Beijing 1999, p. 15. Although the figures presented by the MOFERT and customs statistics varied, the rapid foreign trade expansion appeared to be evident.

⁷ ZNAMENÁČEK, *Čínská ekonomika, hlavní změny a perspektiva*, p. 59.

⁸ It is noteworthy, Hong Kong and Taiwan – other territories peopled mainly by the Chinese – belonged to the prominent group as well. For details, see ZNAMENÁČEK, Martin, *Fenomén Velké Číny*. Habilitační práce, Vysoká škola ekonomická v Praze, Fakulta mezinárodních vztahů, Praha 1997.

⁹ At the beginning of the 1990s, only few countries (e. g. some states in Southeast Asia) had a higher export dependency ratio than the PRC. For more details, see YABUKI, Susumu, *China's New Political Economy*. Westview Press, San Francisco 1995, p. 155.

¹⁰ SCHNITZER, Yvonne, MISSINNE, Stefaan, *Austria's Economic Relations with the People's Republic of China*. Österreichischer Institut für Wirtschaftsforschung, Wien 1994, p. 33.

**Table I: The development of the PRC's Foreign Trade in the Period
1979–1989 (USD millions)**

Year	Total	Exports	Imports
1979	29330	13660	15670
1980	38140	18120	20020
1981	44030	22010	22020
1982	41610	22320	19290
1983	43620	22230	21390
1984	53550	26140	27410
1985	69600	27350	42250
1986	73850	30940	42910
1987	82650	39440	43210
1988	102790	47520	55270
1989	111680	52540	59140

Source: *China Foreign Economic Statistical Yearbook 1999*, China Statistics Press, China Statistical Publishing House, Beijing 1999, p. 15.

As the previously cited data already indicated, the PRC considerably strengthened its position in world trade during the 1980s. Communist China gradually moved from the 26th place to the 14th place in the list of top world exporters and its share in world trade doubled (from approximately 1 % to 2 %) in the period 1980–1989.¹¹

The PRC's foreign trade showed a fierce growth in the 1980s, but its development was characterized by substantial fluctuations. Generally, imports suffered from larger fluctuations than exports. Annual import results varied (from the 12% decline in 1982 to the record 60 % growth

¹¹ *China Foreign Economic Statistical Yearbook 1999*, p. 18.

in 1985 and the stagnation in 1986 and 1987).¹² These fluctuations were closely connected with an unfavorable trade balance which represented another bothersome problem in foreign trade. With the exception of the period 1981–1983, the trade balance of the PRC annually showed a deficit in the 1980s – with a high in 1985 attaining nearly 45 billion RMB (about 15 billion USD).¹³ The trade gap became a touchy problem for the Beijing government that carefully observed the actual movement of the foreign trade and repeatedly responded to the appearance of a growing deficit with relevant restrictive measures.

Of course, the entire problem of an adverse trade balance related to other trends in the Chinese economy. It is widely known that a quickly rising GDP sometimes leads to increasing imports and a growing trade deficit (for the development of the PRC's GDP, see figure III). Increasing imports can, under certain conditions, contribute to rising inflation and, in parallel, an advancing liberalization of foreign trade can impair trade balance. Such a scenario came about in 1985, when the trade deficit quickly expanded. Subsequently, the Beijing government introduced restrictive measures relating to foreign trade (including devaluation of the yuan).¹⁴ Further administrative restrictions emerged after an increase in inflation in years 1987 and 1988.¹⁵

¹² SCHNITZER, MISSINNE, p. 36.

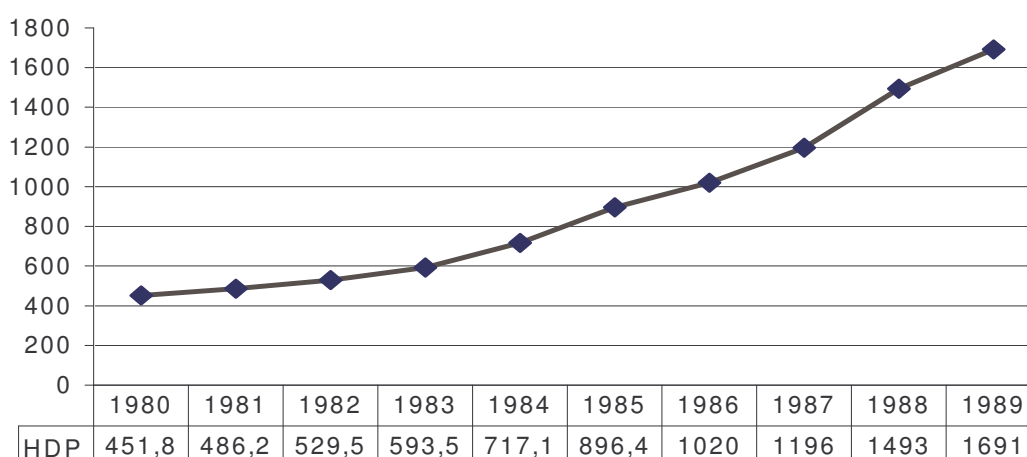
¹³ This adverse trend disappeared in the 1990s. For more details on the development in the 1980s, see figure I. For more details on the development in the 1990s, see LARDY, *Integrating China into the Global Economy*, pp. 6-7.

¹⁴ For more details on the influence of the yuan devaluation on foreign trade, see SUNG, Yun-wing, *The Impact of the Devaluation of the Renminbi on China's Trade*. In: *Studies on Economic Reforms and Development in the People's Republic of China*, edited by Tien-tung, Sung, Yun-wing, Yu, Jingyuan, St. Martin's Press, New York 1993, pp. 131–147.

¹⁵ *World Economic Survey 1994*, World Bank, p. 146. For details on government economic policy and inflation, see HERRMANN-PILLATH, Carsten, *Die chinesische Wirtschaftspolitik in der Phase beschleunigter Inflation: neue theoretische und empirische Analysen*. Bundesinstitut für Ostwissenschaftliche und Internationale Studien, Köln 1989.

The average annual growth of export reached 13 % in the 1980s. In the first half of the 1980s, petroleum and related products made the most important export commodity group, creating almost a quarter of the PRC's export total. The Beijing government regarded expanding oil exports (supported by increasing crude oil output) as an important and long-term source of hard currency for a the modernization of the national economy. Textile and textile articles created the second most important export commodity group. In the aggregate, primary goods made up nearly half of the PRC's export in the first half of the 1980s.¹⁶

**Figure III: The development of the PRC's GDP in the 1980s
(USD billions)**



Source: *Comprehensive Statistical Data and Materials on 50 Years of New China*, China Statistics Press, Beijing 1999, p. 3.

Some evident changes in the commodity structure of Chinese exports appeared in the second half of the 1980s. The proportion of primary goods decreased rather sharply, to 20 % in 1990 – mainly because

¹⁶ ZNAMENÁČEK, *Čínská ekonomika – hlavní změny a perspektiva*, p. 60.

of the shrinking share of oil caused by falling world prices and stagnation of the most significant Chinese oil field, Daqing oil field in Heilongjiang province.¹⁷ By contrast, the proportion of manufactured goods considerably increased, largely due to expanding exports of consumer goods. At the beginning of the 1990s, consumer goods already created almost 40 % of the export total while clothing and textile yarn were the leading items of the PRC's export. In the second half of the 1980s, footwear, telecommunications, electrical machinery and cameras became export items with the fastest growing percentage share.¹⁸ A general shift from capital-intensive products to labor-intensive products represented one of the basic trends in the commodity structure of exports during the second half of the 1980s.

The 1980s brought notable changes in the commodity structure of Chinese imports too. At the beginning of the 1980s, wheat was the most significant item of the PRC's import with about an 11 % share of the export total. Others, such as rolled steel, raw cotton, trucks and synthetic fibers ranked among the top ten import items.¹⁹ Analogous to the export commodity structure, the import commodity structure considerably changed in the middle 1980s, when new government priorities turned up. Due to successful agricultural reforms and a very good harvest in 1984, Chinese demands for imported grain declined. At the same time, the Beijing government launched a new industrial policy, emphasizing both modernization and reorganization of industrial plants. In connection to this, machinery became a preferred import item, creating – together with transport equipment – the dominant import commodity group in the sec-

¹⁷ For further details on oil exports from the PRC in the 1980s, see *Statistical Yearbook of China 1991*. China Statistics Press, National Bureau of Statistics, Beijing, p. 624.

¹⁸ For details, see SCHNITZER, MISSINE, p. 40.

¹⁹ YABUKI, p. 156.

ond half of the 1980s (with the largest proportion of the import total).²⁰ Sufficient import of machinery, which would hereafter enable Communist China to speed up export expansion, played a key role in plans of the central government and was considered one of the fundamental tasks of the foreign trade policy. On the other side, the PRC mostly opposed imports of consumer goods, considering these potential threats to Chinese producers. This strategy resulted in a very small proportion of consumer goods in import total (fluctuating around 5 %) in the middle 1980s.²¹

Compared to the middle of the decade, the commodity structure of imports did not change very much in the second half of the 1980s. Machinery and transport equipment still made up the leading commodity group, with about a 30 % share of the import total, followed by semi-finished goods and chemicals. The higher than average growth of agricultural imports seemed to be one of few substantial changes in the second half of the 1980s. In the period 1985–1989, the share of agricultural imports gradually increased from 3.7 % to about 7 %²² and the shift was mainly caused by the unsatisfactory results of Chinese agriculture. In the second half of the 1980s, all foreign trade – both imports and exports – showed an increasing commodity diversification.

As a detailed analysis demonstrates, the foreign trade territorial structure was rather narrow in the 1980s. In this decade, Asian countries were the PRC's most important trading partners and the PRC's trade with Hong Kong and Japan made up approximately half of the total volume of foreign trade. As early as 1980, the largest portion of Chinese exports went to Hong Kong (about 25 % of the export total). Hong

²⁰ For details on commodity structure of the PRC's imports in the 1980s, see *Comprehensive Statistical Data and Materials on 50 Years of New China*. China Statistics Press, Department of Comprehensive Statistics of National Bureau of Statistics, Beijing 1999, p. 62.

²¹ SCHNITZER, MISSINNE, p. 50

²² *Comprehensive Statistical Data and Materials on 50 Years of New China*, p. 62.

Kong's share stagnated in the first half of the 1980s, but it considerably grew during the rest of the decade and exceeded 40 % at the end of the 1980s. Likewise, the PRC's imports from Hong Kong notably grew in the 1980s. In the first half of the decade, Hong Kong's share of the import total hovered around 10 %. However, imports from Hong Kong showed an extraordinary growth in the second half of the 1980s and their share of the import total reached nearly 30 % by 1990. By the end of the decade, Hong Kong became the chief trading partner for the PRC and played a unique role in the Chinese foreign trade.²³

Analyzing the large increase in the PRC's trade with Hong Kong in the 1980s, we should take into account specific circumstances, under which the increase appeared. Expansion of economic relations between the PRC and Hong Kong was by far not purely limited to a growing mutual trade. Huge investments began to stream from Hong Kong to the PRC as well. Although a great deal of pledged investments did not come to the PRC, Hong Kong invested a sum equal to billions of US dollars in the PRC during the 1980s. Especially in southern China, many enterprises – wholly owned or partly owned by Hong Kong companies – were built up and subsequently cranked out export products. Guangdong province became a main center of Hong Kong business activities. In this province which neighbors Hong Kong, various Hong Kong entities gained more than 80 % share of foreign direct investment by 1991.²⁴ Hong Kong also established unique economic relations with the most important special economic zone, Shenzhen. Hong Kong's economy

²³ For details on the PRC's trade with Hong Kong, see *China: Foreign Trade Reform*. s. 12-15.

²⁴ For details, see *Foreign Economic Relations and Trade Yearbook of China 1991/1992*. China Statistics Press, China Statistical Publishing House, Beijing, pp. 583–585. For foreign direct investment in the PRC (by countries), see LEE, Chung H., REISEN, Helmut, *From Reform to Growth*. Development Centre Documents, OECD, Paris 1994, p. 176.

started to merge with the economy of its adjacent communist giant in the 1980s.²⁵

Japan occupied the position of the PRC's second most important trading partner. In 1980, Japan had a 24% share in the PRC's import total and it quickly grew after 1982, exceeding 35% in 1985. However, the importance of imports from Japan declined in the second half of the decade and the change was partly influenced by the political tension after the Tienanmen Square events at the end of the 1980s. Japan's share in the PRC's import total reached only 14 % in 1990. For Japan, the development was rather alarming, because – in addition to a falling percentage share – an annual value of the PRC's imports from Japan gradually decreased too (from about 12 billion USD in 1985 to approximately 6 billion USD in 1990).²⁶ The development of Chinese exports to Japan was less dramatic. The proportion of exports to Japan in the PRC's export total more or less stagnated in the first half of the 1980s – just a slight increase showed up (from 21 % in 1980 to 22.3 % in 1985). The trend changed during the second half of the 1980s and only 15 % of the Chinese export total went to Japan in 1989.

In the list of top ten trading partners, the USA took the third place in the 1980s. The PRC's imports from the United States were more than 20 % of the total at the beginning of the decade – mainly because of large grain imports. The USA's share of the Chinese import total slumped after 1982 and settled on a level of about 12 % in the second half of the 1980s. On the other hand, the USA's proportion in the Chinese export total changed rather slowly during the 1980s. Despite apparent fluctuations, the percentage of Chinese exports to the United States

²⁵ For details on the PRC–Hong Kong economic connection, see „*One Country, Two Systems*“. The Economist, December 18th 1993, pp. 55–56.

²⁶ ZNAMENÁČEK, *Čínská ekonomika – hlavní změny a perspektiva*, p. 66.

increased step by step in the 1980s (from 5.5 % in 1980 to approximately 9 % in 1990).²⁷

The three mentioned leading countries (Hong Kong, Japan and the USA) were followed by European Community states. As far as the European Community was concerned, Germany obviously showed the largest trade with Communist China in the 1980s. Other EC countries – having relatively greater trade with the PRC – France, the Netherlands, the United Kingdom and Italy markedly fell behind the volume of the Sino-German trade. In comparison with Germany, they also suffered from larger fluctuations in their trade with the PRC. In some respect, Benelux played an interesting role in the Sino-EC trade, since Benelux states (especially Belgium and Luxembourg) ranked among the West European countries gaining the largest trade with the PRC per capita.²⁸ In spite of growing Chinese exports to the EC, the EC's share of the Chinese export total declined in the 1980s and came to 10 % at the turn of the 1990s.²⁹ Imports from the EC maintained a level of about 14 % of the PRC's import total in the 1980s.

Trade with East European communist states represented a very specific part of the PRC's foreign trade. Formation of a reform government in Communist China and the new political atmosphere in the Soviet bloc in Gorbachev's era created new conditions for better economic cooperation between the PRC and Eastern Europe in the 1980s. In some respect, a successful economic cooperation was to be a keystone in mutual relations. An expansion of trade with East European states seemed

²⁷ For details, see YABUKI, Susumu, pp. 159–161.

²⁸ For details, see GRANT, Richard, *The European Union and China*, A European Strategy for the Twenty-First Century. Royal Institute of International Affairs, London 1995, pp. 93–94.

²⁹ In this case, re-exports from Hong Kong played an important role and markedly deformed the PRC's foreign trade statistics. The real share of Chinese exports to the EC in export total was larger than the figure presented in official PRC's statistics. Further information on re-exports from Hong Kong will be forthcoming.

to be advantageous for the PRC, because this trade did not require hard currency – the advantage obviously came to the fore in the period, when a trade deficit with capitalist states was increasing.³⁰

The PRC's trade with East European states attained a considerable quantitative growth in the 1980s.³¹ In 1980, the total value of the PRC's trade with the East European states of Czechoslovakia, the German Democratic Republic, Hungary and Poland was roughly 812 million USD. Eight years later, solely the Sino-Czechoslovak trade showed the same annual value (over 800 million USD) and the total value of the PRC's trade with the mentioned states got on 2.147 billion USD – the total value thus increased nearly threefold in the period 1980–1988. Compared to other East European states, Sino-Soviet trade achieved a better growth dynamic and grew almost sevenfold over the same period.³² Step by step, the PRC became a more important export destination for East European countries and the proportion of the PRC in East European export gradually increased.³³

The mentioned data should not create a misimpression that the Sino-East European trade flourished remarkably. It would be a mere illusion, not corresponding to facts. Despite an evident expansion, the development of the Sino-East European trade lagged behind results of the PRC's trade with the rest of the world. This phenomenon became the main reason for a decreasing proportion of communist countries in the PRC's foreign trade in the 1980s (their percentage diminished from 7 %

³⁰ For details, see KAPUR, Harish, *Distant Neighbours. China and Europe*. Pinter Publishers, London and New York 1990, p. 168.

³¹ With the exception of the Sino-Rumanian trade which declined. KAPUR, p. 169.

³² For details, see *1979–1991 China Foreign Economic Statistics*, China Statistical & Consultancy Service Center, Beijing 1992, pp. 210–216.

³³ *1979–1991 China Foreign Economic Statistics*, pp. 210–216.

to 5 %)³⁴ Likewise, the PRC's share of East European exports stayed rather small and the proportion of Communist China in export total of East European states varied from 0.7 % to 3.6 %³⁵ at the end of the 1980s. The export expansion of East European states actually fell behind the EC exports to the PRC. In spite of the declining EC's share of the PRC's foreign trade in the 1980s, the European Community (as a whole) showed, in the long term, several-fold larger trade with the PRC than the East European states did. In addition, the difference between the European Community and the East European states gradually increased in this respect.³⁶

Analyzing the PRC's trade with East European communist states, it is also necessary to take into account some specific instruments making the mutual trade more advantageous (for both sides), e.g. clearing combined with barter (without using hard currency). On the other hand, these instruments brought a significant potential threat of sudden fluctuation in mutual trade – this problem utterly came to light in the “transformation period” after the fall of the communist regimes in Eastern Europe. Moreover, an expansion of the PRC's trade with East European countries was hampered by several other factors in the 1980s, such as problems with product quality, the long distance between the East European region and Communist China, insufficient flexibility of both Czech and Chinese exporters etc.

Compared to developed capitalist countries, the bargaining position of the East European states in trade with the PRC was gradually get-

³⁴ At the turn of the 1990s, the PRC's trade with the Soviet Union (Russia) made up about three quarters of total Chinese trade with former members of the Soviet bloc. In fact, a great deal of the Sino-Soviet (Russian) trade was border trade.

³⁵ Not considering Rumania (about 4,5 %). For further information, see *1979–1991 China Foreign Economic Statistics*, pp. 210–216.

³⁶ KAŠPAROVÁ, Jiřina, *Hospodářské styky ČLR se zahraničím a podmínky pro rozvoj čs. hospodářské spolupráce s ČLR*. Výzkumná práce číslo 82, Výzkumný ústav vnějších ekonomických vztahů, Praha 1988, p. 27.

ting weaker. For instance, developed capitalist countries could grant Communist China more advantageous credits and showed a stronger willingness to carry out a wide range of economic activities with the PRC in the 1980s. These advantages in economic cooperation with capitalist countries were attentively perceived by the Beijing government. In addition, the East European states usually strove after a balanced trade with the PRC and this demand generally restrained an expansion of mutual trade.³⁷

Here, I have to call attention to the somewhat relative significance of the mentioned statistical data – especially data on trade between the PRC and Hong Kong. In reality, Hong Kong transformed into a middle-man between Chinese suppliers and global buyers during the 1980s.³⁸ In this decade, the significance of re-exports from Hong Kong steadily grew. Re-exports made up a third of Hong Kong's export at the beginning of the decade, a half in 1987 and nearly three quarters at the end of the decade. It is estimated that approximately 90 % of goods imported from the PRC to Hong Kong in the 1980s was not intended for the Hong Kong market. In 1990, imports from Communist China to Hong Kong reached almost 33 billion USD, but only imports valued at 4 billion USD stayed in Hong Kong.³⁹ Similarly, official data on imports from Hong Kong to the PRC are fairly misleading. Actually, a large part of imports from Hong Kong were created by semi-finished products that were to be finished in the PRC (especially in southern provinces) and re-exported.

The mentioned facts, of course, influence an analysis of Hong Kong's position in the PRC's foreign trade. Analyzing the PRC's export according to the destination market (regardless of who actually purchased

³⁷ KAŠPAROVÁ, p. 25.

³⁸ Naturally, the small Hong Kong market was not able to absorb a huge amount of imported Chinese goods.

³⁹ Other imports actually became re-exports. *China: Foreign Trade Reform*, p. 13.

goods in the PRC), we come to the conclusion that the United States and Japan were, in fact, the most important markets for the PRC in the 1980s while Hong Kong occupied third place. Moreover, the Chinese official foreign trade statistics were rather biased in the 1980s, since they did not include data on the PRC's trade with South Korea and Taiwan. According to United Nations statistics, South Korea and Taiwan belonged to the top ten trading partners of Communist China at the end of the 1980s. Imports from South Korea and Taiwan were 9 % of the PRC's import total in 1990.⁴⁰

Analogous to the whole Chinese economy, the PRC's foreign trade – both qualitative and quantitative aspects of foreign trade – radically changed in the 1980s. The Beijing government launched fundamental foreign trade reforms that brought – to some extent – liberalization, decentralization, new exchange policy etc. This new reform strategy evoked rapid growth and led to substantial changes in both territorial and commodity structures of Chinese foreign trade.⁴¹ On the other side, Chinese foreign trade faced some conspicuous problems in the first reform phase. For instance, the development of trade balance was somewhat annoying in the 1980s. The PRC's foreign trade was, in principle, balanced in the first half of the 1980s, whereas in the second half of the decade it showed an annual deficit.

Foreign trade expansion arose from a general strategy of opening up China's economy and it was naturally connected with many other

⁴⁰ *China: Foreign Trade Reform*, p. 19. Some deficiencies in the Chinese official statistics disappeared in the 1990s. For example, these statistics have contained data on the PRC's trade with South Korea and Taiwan since 1992.

⁴¹ Here, it should be noted that this boom was not stopped by the dramatic political situation in 1989. Surprising many economists, the events in Tiananmen Square had a limited impact on Chinese foreign economic relations. Like the whole Chinese economy, both foreign trade and foreign direct investment quickly grew in the new decade. For details, see LARDY, *Integrating China into the Global Economy*.

changes which resulted from reform processes.⁴² Expanding foreign trade catalyzed the Chinese economy and virtually impacted the whole of China's society. The foreign trade boom led to a better position for the PRC in world trade. The average annual increase in the PRC's export was about 11 % in the 1980s, while export of India (whose economy was often confronted with the Chinese one) reached roughly half of this growth rate (5,3 %).⁴³ Basically, results of the PRC's foreign trade were still similar to performance of large developing countries (e. g. Brazil) in the first half of the 1980s, but the difference between Communist China and developing countries quickly increased in the second half of the 1980s. As far as a total volume of foreign trade was concerned, the PRC already ranked among the most important world economies in the 1990s.⁴⁴

In light of improving basic economic indicators, the Chinese reform program stimulated an economic boom that strengthened the PRC's standing in the world economy. In a mere decade, Communist China changed from a country with limited foreign economic relations to a state which gained a very good bargaining position in the world economy. The PRC's export performance quickly enhanced and the Chinese market became more attractive for foreign companies. Building new

⁴² Obviously, a rapid increase in foreign trade was also related to growing foreign direct investment. Increasingly, foreign-funded enterprises influenced export performance of the PRC. For details on growing foreign direct investment, see *China Statistical Yearbook 1999*. China Statistics Press, National Bureau of Statistics, Beijing 1999, p. 594.

⁴³ In the 1980s, the PRC's export grew faster than the export of a majority of developing countries. NOLAN, Peter, *State and Market in the Chinese Economy*. Macmillan, Basingstoke 1993, pp. 58–59 and pp. 290–292. The data on foreign trade presented by different sources vary slightly. For details, see ZNAMENÁČEK, *Čínská ekonomika – hlavní změny a perspektiva*, p. 59.

⁴⁴ For details on the PRC's foreign trade in the 1990s, see LARDY, *Integrating China into the Global Economy* and *China and the Long March to Global Trade: the Accession of China to the World Trade Organization*, edited by Sylvia OSTRY, Alan S. ALEXANDROFF and Rafael GOMEZ, Routledge studies in the growth economies of Asia, London 2002.

economic relations with Communist China, many countries were compelled to various concessions, since their bargaining power was weaker than the Chinese one.

With regard to both a successful economic consolidation and topical needs of the Chinese economy, the PRC decided to overhaul its foreign economic policy at the turn of the 1990s. The new strategy led to a general reduction in imports – with the aim of protecting domestic producers against foreign competition. Just at that moment (more than ever), the world began to ask questions: How will additional reform measures influence the development of Sino-foreign economic relations? Will Communist China be a reliable trading partner in the future? How difficult will access be to the Chinese market for foreign companies in the future? These questions have remained topical to the present.