

The Development Of Trade Between The United States  
And the People's Republic Of China

by

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
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## I. INTRODUCTION

The rapid growth of the relationships between the United States and the People's Republic of China (PRC) has drawn much attention since 1972, when President Nixon visited China and agreed to the Shanghai Communique. Improvements in relations between the two countries since 1972 have been enormous. Economic relations have had a great influence on the trade between the countries.

This paper will examine what has happened in the past, what is currently occurring, and what is expected to happen in the future to the economic relationships between the two countries. This paper will review trade between the two countries since 1950. Focus will be on those factors that have had significant impacts on trade between the two countries. The political and economic conditions of the two countries, which have great impacts on trade, will be the most important aspects of this paper. Three periods are employed to indicate the development: 1) the period before 1972; 2) the period from 1972 to 1979; and 3) the period since 1979. In 1972 and 1979, there were historical changes in the relationships between the two countries; namely, the 1972 Shanghai Communique and the 1979 Normalization.

## II. THE PERIOD BEFORE 1972

### A. Political Relations

Friendly relationships between China and the United States did not exist during the 1950s and 1960s. Instead, we observed abnormal and unfriendly relations. Relations between the two countries could be summarized as follows: open hostilities during the 1950s and antagonism during the 1960s. The "open hostilities" here refers to the two countries treating the other as an enemy. The "Antagonism" here means that the two countries treated the other as a "competitor" in ideological, political, economic, and other fields. Both countries tried to demonstrate their own power (Stoessel). There are two main reasons that the relationships between the two countries were so bad; first, in the late 1940s, the USA supported the Nationalists of China in the Chinese Civil War, and treated Taiwan as an independent nation. There were official relations between the United States and Taiwan before 1972. This was the biggest barrier that the two countries had to cross before reaching a normal relationship, since Beijing claimed that Taiwan had been a part of the PRC. Second, in the early 1950s, both China and the United States were involved in the Korean War and they were fighting face to face. The hostilities between the U.S. and PRC were strong for a long time after the Korean War. Third, China's ideology during that time followed the work of Karl Marx, who treated capitalism as a very unfair and dangerous social system that

was expected to collapse in the future. This ideology was related to the belief that socialism would succeed over capitalism, and communism would be realized in the entire world.

China had no trade relations with most capitalist countries until the relations between China and the USSR were broken in the early 1960s. In the 1960s, China's political strategy changed. China tried to demonstrate the advantages of socialism over capitalism. The slogan during that time was 'pass over the British and the USA.' However, the progress was interrupted by the Cultural Revolution, which was a political movement started by Chairman Mao. During that time, class struggle was the center of every Chinese person's life. All else was not important, including economic development. The social and economic losses of the Cultural Revolution are impossible to be estimated. China lost a whole generation during the Cultural Revolution. Those persons about 35 years old today lost the chance to get a normal education, they went to countryside to get reeducation from the peasants when they should have been studying in schools. China lost the chance to improve its economy, while Taiwan, South Korea and Singapore made big improvements in their industrialization process.

Although China supported Communist Vietnam in the late 1960s, the relations between the United States and China did not revert to what of the early 1950s. During this conflict,



the Chinese rulers held a different view; the government realized that China could not reap any benefits from a face-to-face fight with the United States.

#### B. Economic Relations

Before President Richard M. Nixon went to China in 1972, the economic relations between the two countries were almost nonexistent. Although the data of the nonagricultural trading value between the two countries is not available for this period, evidence indicates that trade between the two countries was small or nonexistent. For example, according to the "U.S. Foreign Trade Statistical Report", U.S. agricultural exports to the PRC averaged only 7.45 million dollars each year during 1950-54, with agricultural imports from the PRC averaging 34.6 million dollars each year. From 1955 to 1971, the U.S. had no agricultural exports to China. Although the U.S. had agricultural imports from the PRC in some years, the values were very small: only 1,000 dollars in 1960, 2,000 dollars in 1962, 11,000 dollars in 1963, and 4,000 dollars in 1969. Obviously, trade relations between the two countries were inhibited during the period before 1972. Political disparities had a significant influence on the economic relations of the two countries. Trade relationships could not be normalized without certain normal political, diplomatic relations between the two countries and legal agreements. Because of hostilities in early 1950s, the U.S.

employed a trade embargo against China as a sanction for China's participation in the Korean War. The United States allowed no direct trade with China and no technology transfer. This made bilateral trading impossible.

There were no economic ties between the two countries, such as banking, insurance, or investment before 1972. After New China was founded in 1949, the American government enacted a strict economic blockade against China and froze all deposits in the United States that belonged to the Bank of China. In addition, before 1972, the account of China's trade with America were settled by a third-country, who had trade relations with the United States. Because during that time, direct trade between the two countries was still prohibited (Wu).

On the Chinese side, economic policies were based on ideology. China did not want to depend on capitalist countries in any way. The industrialized countries in Western Europe were trading partners only to fill in gaps where China's socialist trade partners were weak or unable to finish goods fast enough to keep pace with China's ambitious industrialization programs. China's scarcity on foreign exchange also limited its trade. In addition, the U.S. export control policies also made trade relations between the two countries impossible. China was classified as a "Z" country by the U.S., which was subject to a total trade embargo.

Abnormal relations were very costly for both countries.

The U.S. might lose a lot in the sense that it could have gained substantially from the trade with China at that time and could have had a firm ground for today's trade share in the Chinese market if there were normal political and diplomatic relations between the two countries, just as between China and Japan.

The trade embargo of the U.S. and other Western countries had a negative impact on China's economy. China had to shift its trade to its communist partners, which could not provide advanced technology. If there had been a good relationship throughout the period, the two countries could have concentrated their own economic development, and the relations between the two countries could have been established earlier, which were the common interests of both the Americans and the Chinese. People from both countries will not forget this period of history.

### III. THE PERIOD FROM 1972 TO 1979

The year 1972 was a historical one for the United States and the People's Republic of China. This is the year of President Nixon's visit to China. During this visit, the two countries opened their doors to each other and the relations between the two countries improved significantly, although some areas could have been improved much further if there had been normal relations between the two countries.

#### A. Political Relations

When U.S. Secretary of the State Henry A. Kissinger received a letter from the Chinese Premier Zhou Enlai on July 2, 1971, in which Zhou told him that Chairman Mao Zedong and Zhou welcomed President Nixon's visit to China and Kissinger's preparatory visit, Kissinger said to Nixon, "I think this is the most important letter an American president has received since World War II," because he knew that the contact of the two super nations would have a great impact on the strategic and political balance of the world. At the beginning of the contact of the two countries in 1972, the U.S. focus of the relationships was almost entirely on its shared strategic concerns over the Soviet power and expansion. Beijing realized that the United States was the only "super power" in the world that could offset the pressure coming from the Soviet Union. Although there were different views on certain international affairs between the two countries, there were

common interests for both sides in resisting Soviet pressures and in seeking changes in Soviet policies that would genuinely reduce tensions in the region and in the world. This has remained a central element in the relations between the two countries since 1972.

With the signing of the 1972 Shanghai Communique, the United States agreed that the People's Republic of China was the sole legal government of China and Taiwan was a part of PRC. This treaty destroyed the toughest political barrier between the two countries. Actually, when Kissinger negotiated this very sensitive issue with Zhou Enlai, Zhou claimed that the PRC was China's sole government, the drive to liberate Taiwan was China's internal affair, and U.S. troops must withdraw from Taiwan. These three principles were not subject to change. Kissinger, however, insisted that America should not abandon its old friend. But finally, both sides compromised.

Since 1972, these two countries had maintained high-quality dialogues on many issues about the relations between the two countries and other international issues. Both sides have been trying to develop a deeper, more extensive, durable and friendly relationship in many areas. They tried to understand each other even they had totally different social systems. The 1972 visit of President Nixon and the 1975 visit of President Gerald Ford to China indicated that the U.S. was interested in China. In May 1973, a liaison office from each

country was set up in Washington D.C. and Beijing. In December 15, 1978, the two governments announced the establishment of diplomatic relations on January 1, 1979. Meanwhile, trade values between the two countries increased rapidly compared to the period before 1972. The improvement of the Sino-U.S. relations is very important. When we recall the Sino-U.S. history, we cannot find friendly relations, except during the World War II. The close relations between the two countries would contribute to the stability of the world. In addition, there was a big potential of trade between the two countries. The development of Sino-U.S. trade is in the best interest of both countries. While China is lacking technology and capital, but has a big potential market, the United States has technology and capital, but needs markets. Cooperation could enhance the standard of living in both countries.

In a speech at Notre Dame University in May 22, 1977, President Carter said, "It is important that we make progress towards normalizing relations with the People's Republic of China. We see the American-Chinese relationships as a central element of our global policy, and China as a key force for global peace." This reflected the guideline of the Carter Administration's foreign policy stance toward China.

The pragmatism of both governments helped them both put aside the myths and unrealistic expectations of the other. The foreign policies of the two countries were sometimes

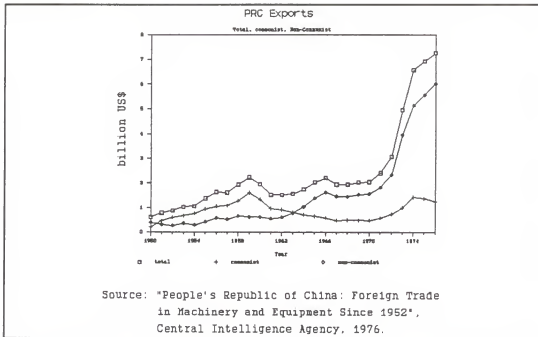
accused of being short-sighted, because both sides treated the other as an enemy and ignored all of the more important aspects of a normal Sino-U.S. relationship. This has no longer been the case since 1972. Both countries regarded the other as a key force for world peace. All evidence indicates that these two countries could understand each other very well in many important international issues, not only because both countries have been playing important roles in the world, but they have common strategic , political, and economic interests. The concerns over the Soviet Union formed the basis of their common strategic and political interests.

#### B. Economic Relations

Since 1972, China has been more open to Western industrialized countries. The trade values of China have increased substantially since then. China has become more interested in the free market world than communist countries which were its traditional trade partners. There was a common trend that both China's exports and imports shifted from the communist nations to non-communist countries. This can be reflected in Figure 1, Figure 2, and Figure 3, which show the tendency of PRC's export, import, and total trade structure.

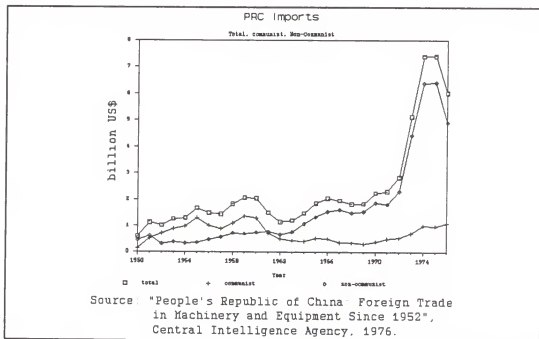
The trade between PRC and the non-communist countries has dominated since the mid-1960s. The non-communist countries increased their share of China's trade to 83 percent in 1977. China realized that Western advanced sciences and

Figure 1



technology could contribute alot to its modernization programs. Before 1949, China had a long history of a feudal

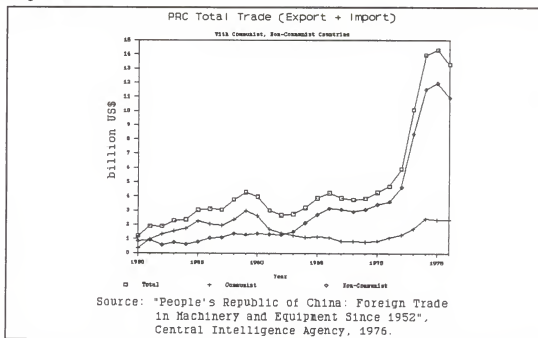
Figure 2





system. Even after 1949, China had no experience with industrialization. Instead, Chinese history was a history of continuous political movements. China's sciences and technology were far behind the Western countries. China knew that the best way to catch up with those countries was to import modern Western technology.

Figure 3



The origins of the economic ties since the early 1970s between the two countries could be traced to the Shanghai Communique of February 1972, in which China and the United States agreed to facilitate the progressive development of trade between their two countries. The Communique stated that, "economic relations based on equality and mutual benefit are in the interest of the people of the two countries" (U.S. Central Intelligence Agency, National Foreign Assessment

Center).

(1) China's own economic strategy and trade policy

During the early 1970s, Beijing adopted a more outward-looking economic policy in order to spur its process of development. By 1975, trade value had more than tripled over its 1970 level of \$4 billion. According to the former Foreign Trade Minister's statement in October 1977, trade would play an important role in the approach of China's modernization. Through trade, China could get the advanced technology. She needed and improve her domestic economy.

China adopted basically self-reliant, selective use imports of advanced technology policy. China gave import priorities to transportation, energy, communication, while encouraged its domestic industry to realize its potential by using existing technology. China's marketing power limited its imports, even high-technology products. Also, China did not want to develop an economy highly dependent on Western countries. China's policy was to import advanced technology and convert it to China's own technology by absorbing it. This policy was more flexible than before. China also adopted a policy of financing imports by exports to avoid large foreign debt. It seems that China's financial policies during that time were still somewhat conservative. China did not want to develop its economy by borrowing foreign capital, which would be risky. Before 1973, foreign trade had never

been an important part in China's economy and the annual total trade value had never exceeded \$10 billion. Also, China had no experience with foreign loans, so it was difficult to predict the economic consequence of foreign debt, such as facing Brazil and Argentina. China's financial policies were conservative in the 1970s, because of the success of China's use of foreign loans in the 1980s indicates that a small amount of foreign debt might not have such a big risk as predicted.

#### (2) U.S. economic policy toward China

The U.S. import controls were lifted in late 1971 and export controls were lifted in 1972. The U.S. imports from China increased continuously from 1972 to 1979 period, while U.S. exports to China were unstable, with great fluctuation.

This is related to the U.S. market power to buy small value of China's commodities, items of U.S. exports to China, China's own agricultural condition, and the lack of diplomatic relations.

The U.S. still adopted an export control policy for high-technology products and an import protection policy. The U.S. trade policies have been very complex. Until 1980, the U.S. did not grant the Most-Favored-Nation (MFN) treatment to China. MFN is a special trade status a country gives to its trade partners in terms of tariff difference. Before 1972, the U.S. classified China as a "Z" country, which was subject

to a total trade embargo. After 1972, China was moved into "Y" status, a category which includes the USSR, which allowed the U.S. and its allies to sell only certain nonstrategic items to China. On the U.S. import side, China's commodities were subject to high tariffs which made it impossible for the Chinese commodities to compete in the American markets.

Table 1

Tariffs On Leading Chinese Exports To The U.S.		
	without MFN	with MFN
top 15 products		
printclose shirting	17%	9.51%
tin other than		
alloys, unwrought	free	free
feathers	20%	15%
fireworks	c12 per lb	c12 per lb
antiques	free	free
downs	20%	15%
white cotton sheeting	13.5%	7.61%
bamboo baskets and bags	50%	25%
bristles	c3 per lb	c3/4 per lb
cashews, shelled	c2 per lb	free
tungsten ore	c50 per lb	c25 per lb
floor covering, pile	45%	11%
men's cotton shirts	45%	21%
cotton gloves	25%	25%
tea, crude or processed	free	free

Source: Subcommittee On International Trade. Nov. 15, 1979. P.100

(3) Details of the U.S.-China trade during that period

Figure 4 summarizes what has happened to the U.S.-China trade during 1970-79 period. While China was not a major trading nation of the United States, the trade between the two countries was still important to both sides, because China

Table 2

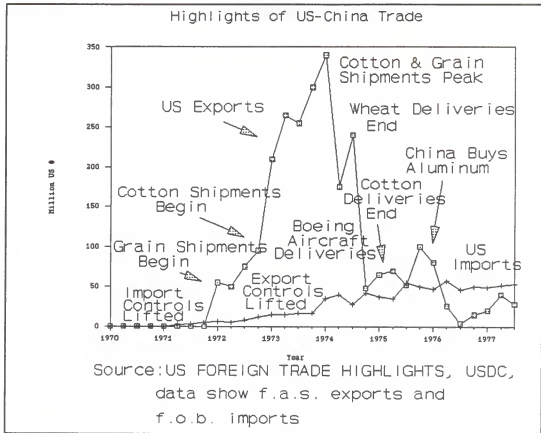
U.S. Tariffs On The Chinese Export With Potential In The U.S. Market		
	without MFN (%)	with MFN (%)
organic chemicals	24.5	6.3
essential oils	31.3	4.2
chemical products & materials	24.8	6.9
textile yarn & thread	45	10.5
cotton fabrics, woven	15.7	8.7
textile fabrics, woven other than cloth	59	21.2
pottery	52.9	20.1
furniture	46	12.5
travel goods, handbags, etc.	50.8	21.5
clothing & accessories	58.2	21.5
footwear	27.4	10.4
toys, games, sporting goods, jewelry and related articals	67	16.3
manufactured articals	50.5	13.0

Source: Subcommittee On International Trade. Nov. 15,  
1979. P.101

was the major U.S. trade partner of certain agricultural products in some years and trade is often a indication of political relations. The United States increased their share of China's trade. For example, in 1976, the United States was the 8th largest trade partner of China, in 1977, the United States became the 7th largest trade partner of China, following Japan, Hong Kong, West Germany, Australia, Romania, and Canada (U.S. National Foreign Assessment Center).

While the U.S. imports from China steadily increased during this period, the U.S. exports to China were uneven in some senses --expanding enormously from \$63 million in 1972

Figure 4



to \$819 million in 1974 (the U.S. was China's second largest trade partner in 1974), and falling to \$135 million in 1976. There were several reasons that the U.S. exports to China fluctuated significantly during the period.

First, the major U.S. exports to China during that time were agricultural products. China's agricultural imports depended highly on China's own agricultural production. The fluctuation of U.S. exports to China reflects the unstable performance of China's agriculture during that period.

Second, since there was lack of diplomatic relations between the two countries during the period, China treated

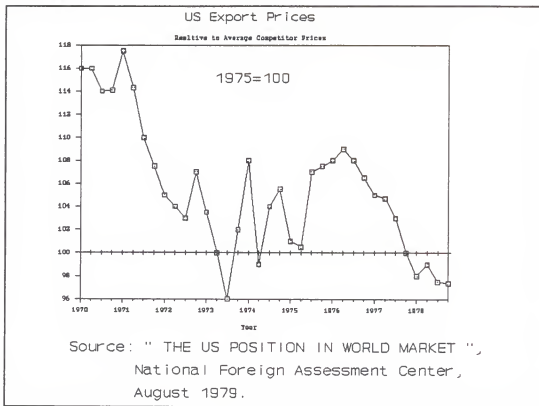
the United States as a residual source of supply if other import sources were available. There were several major western trade partners of China: Japan, West Germany, Hong Kong, Australia, Canada, and some other countries. China usually purchased imports from Canada and Australia when the U.S. and China had political disagreements. For example, the different viewpoint of the two countries toward the communist movements in some Third World countries often affect the Sino-U.S. trade relations.

Third, prices of the United States products were not competitive with world prices during some years. The index of the competitor prices of the U.S. is 100 in 1975.

From Figure 5 we can see that in almost every year from 1970 to 1978, the U.S. export prices were above the average prices of its competitors.

Trade during this period could be characterized by erratic U.S. exports and slow but steady growth in U.S. imports. China would not pay the costs to avoid importing U.S. goods even there were some disputes between the two governments. Foreign trade was not a strong weapon for China to develop the relations with Western countries because of lack of market power. China suffered too much in 1950s and 1960s in foreign trade. During those two decades, China did not concentrate on economic development, and had few trade relations with the Western countries. China needed advanced technology from the United States to achieve its economic

Figure 5



goals.

In 1974, the U.S. exports to China reached \$820 million and quickly became the second largest trade partner of China, following Japan. However, agricultural exports, which accounted for three-fourths of total U.S. export to China in 1972-75, were rapidly phased out with China's import needs being met by the traditional suppliers. There were three other deals - for 10 Boeing aircraft, eight fertilizer plants, and 100,000 tons of aluminum - that accounted for the bulk of U.S. nonagricultural exports to China.

In 1976, the United States registered its first trade deficit with China since 1971. Before the 1979 Normalization,



the U.S. viewed Beijing's unwillingness to permit a sharp improvement in trade relations as the major impediment for U.S. exports to China.

China's demand for high-technology American goods remained large. However, U.S. strategic trade controls on computers and other sophisticated equipment would continue to hamper sales if no new policy was made. Even so, U.S. firms continued to benefit from sale of U.S. technical processes embodied in plants sold to China by third countries. China had no similar qualms on exports to the United States and made efforts to develop the U.S. markets.

Before normalization, non-MFN tariffs were a serious barrier only to some Chinese goods. More important was the limited U.S. demand for some of China's traditional exports. In addition, U.S. nontariff restrictions such as the regulations involving product safety or the Food and Drug Administration restricted the entry of other Chinese exports.

There were many problems in the trade of the so-called "sensitive commodities", such as textiles and footwear. The reason that those commodities were "sensitive" was that in the United States, the domestic business of this kind of production did not pay low wages, and as a result could not compete with the Asian countries, such as Hong Kong, Taiwan, China and South Korea. For example, in China, a worker can only make about \$100 each month. The U.S. government imposed controls to limit the imports of the sensitive commodities to

protect its domestic business. Usually the U.S. made some import quantity control agreements with other countries. Table 3 shows U.S.-China trade details over the 1972-76 period

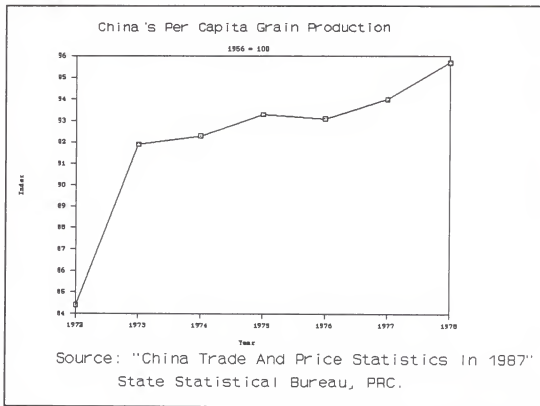
Table 3

	US-China Trade				
	1972	1973	1974	1975	1976
				Million	\$
US Exports	63	740	819	304	135
Ag. commodities	61	628	668	80	0
of which:					
Wheat	35	308	234	0	0
Corn	24	141	96	0	0
Soybeans	0	55	138	0	0
Cotton	0	101	186	80	0
Vegetable oils	2	19	8	0	0
Metals	0	31	22	83	47
of which:					
Steel scrap	0	24	12	13	4
Aluminum	0	3	0	47	26
Iron & Steel pipe	0	0	3	12	11
Machinery & Equip.	2	69	107	119	65
of which:					
Aircraft, include engines, parts, & accessories	0	63	76	2	1
Other	0	12	22	22	23
US Imports	32	64	115	158	201
Foodstuffs & Tobacco	4	7	16	16	24
Textiles & Apparel	7	15	36	45	69
Handicrafts	8	15	20	22	32
Bristles, down & feathers	8	8	10	6	24
Chemicals	2	8	18	16	18
Nonferrous minerals & metals	2	8	11	42	19
Other	1	3	4	11	15
Source: CHINA ECONOMY, by National Foreign Assessment Center, P.10, exports show f.a.s. and imports show f.o.b.					

(National Foreign Assessment Center). In table 3, we notice that China imported relatively large volumes of grain in some years. Agricultural imports have played an important role in China's trade strategy. China is still continuously struggling to solve its "food problem". In China, per capita grain production was less than 400 kg, which could only meet basic human nutrition need. This also limited the development of livestock and poultry. For example, in 1978, per capita consumption of pork was only 7.6 kg, of eggs, only 2 kg. This kind of food structure was far behind the Western countries. During this period, several million hectares of cropland were used for nonagricultural purposes. The increase in grain output were mainly from increasing yields. Even in some years the output of agriculture increased, but most of the increase was offset by the growth in population. In addition, the level of per capita production of grain during most of the 1970s was lower than during the 1950s. For example, if the index of per capita production of grain in 1956 is 100, the indexes from 1972 to 1978 were lower than 100. The main reason is that the population growth rate was higher than the growth rate of production. See Figure 6.

In the future, China will still need to import agricultural products, because the easiest gains have already been made from the " household contract responsibility system " and it is extremely difficult to increase the productivity of agricultural production sharply in a short time. The

Figure 6



responsibility system allows farmers to keep the remains of their products when they finish the quota signed in the contract with the government. The contract made the responsibilities clear to both farmers and government. Farmers agree to sell certain amount of agricultural products to the state at prices listed in the contract. This gave farmers great incentives to increase their production. Before 1979, the "People's Commune" system was called "Iron Bowel" system with equal distribution, no matter how well and how much you did. Under that system, farmers did not have any incentives to increase their production, because they could not get enough benefit from their work.

China's foreign trade policy has been liberalized in some surprising ways since 1978. Beijing was willing to engage in direct borrowing for longer term, barter agreements, product payback schemes for imports, importing goods to be reprocessed for export, and even some forms of joint venture with foreign firms. But in 1978, direct government-to-government loans and direct foreign investment were still prohibited (U.S. National Foreign Assessment Center).

During the 1972-79 period, the development of the Sino-U.S. relationships were comprehensive.

#### IV. THE PERIOD SINCE 1979

On January 1, 1979, China and the United States reached full normalization of diplomatic relations. This was a big improvement of the Shanghai Communique. During the same month, Vice Premier Deng Xiaoping made a historical visit to the United States, and Vice President Walter F. Mondale visited China. Since then, the relations between the two countries have been becoming deeper, more friendly, extensive and durable.

##### A. Political Relations

In June 1982, Deputy Secretary of the State Walter J. Stoessel, Jr., made an address before the National Council on U.S.-China trade. He said that a strong U.S.-China relationship was one of the highest goals of President Reagan's foreign policy. This relationship was not only critical for the U.S. long-term security but also would contribute to Asian stability and global harmony. The U.S. realized that China would be an important element in world affairs, especially to the Soviet-U.S. relationship. The U.S. could reduce its pressure from the Soviet Union if there was a good Sino-U.S. relationship.

In his letter to Premier Zhao, President Reagan noted that "Our contacts have embraced almost all areas of human endeavor."

In May 31, 1984, assistant secretary for East Asian and

Pacific Affairs Paul D. Wolfowitz made an address on Sino-U.S. trade. He said that the relationship between the two countries was neither a predominantly economic nor a predominantly strategic one but rather a comprehensive one because each element reinforces the other. The economic progress between the two countries is important itself, but also is an important element in the strategic equation (Wolfowitz).

Secretary Schultz said that the U.S. was seeking a relationship that was no longer subject to the alternating cycles of euphoria and depression that had characterized the past, but one that rested on a stronger, more stable foundation. This indicates that US government would not allow the 1950s and 1960s history to repeat itself (Wolfowitz).

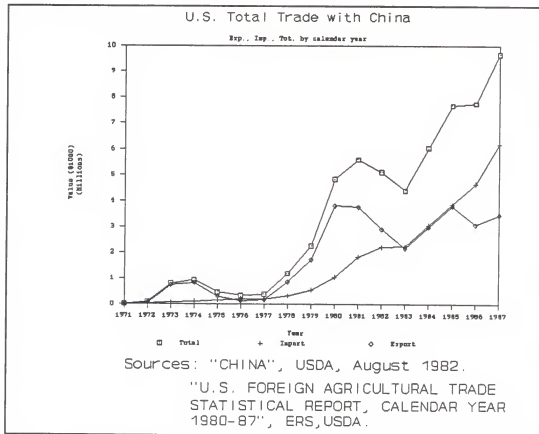
The visits of Presidents Reagan and Bush to China strongly indicate that these two countries have taken their new steps to develop a deepening bilateral relationship. President Bush gained much experience in dealing with Chinese issues when he worked at the U.S. embassy in Beijing in 1970s. Many of China's leaders are his personal friends. The personal relations between Bush and Chinese leaders also should contribute to a good Sino-U.S. relationship.

#### B. Economic Relations

Following the Normalization in 1979, the trade between the two countries increased substantially. Two-way trade

between the two countries doubled in 1979 and again in 1980.  
(Figure 7.)

**Figure 7**



The economic reform in China started in the agricultural sector with the so-called "household contract responsibility system", then they turned to the industrial sector and urban areas. Since then, China has adopted more market-oriented economic policies. Foreign trade has been an important factor in China's drive for modernization. The structure of China's foreign trade has changed since the early 1970s. The proportion of industrial goods to total exports rose, and the



proportion of agricultural goods and related products dropped. As for imported goods, the proportion of raw and other materials for processing by light industry increased, while the share of heavy machinery and steel dropped. China knew that the most efficient way to enhance its export capability was to develop its industry and to export industrial products (USDA, ERS).

Following the Normalization, these two governments concluded a general trade agreement, which called on the American and Chinese governments to promote economic and trade relations, and each to accord the other Most-Favored-Nation (MFN) tariff treatment. Both also agreed to consult in the event of bilateral trade problems. This is very important to the Sino-U.S. trade. The big difference of tariffs with and without MFN has great impact on trade. If there were no agreements and MFN status, the trade could not have further developed, because the high tariffs would block the potential trade between the two countries.

In 1980, the United States took the first steps to liberalize its controls on exports of high technology to China and extended Eximbank (Export-Import Bank of the United States) and OPIC (Overseas Private Investment Corporation) facilities in China. Later that year, the U.S. Department of Commerce staged the first U.S. national trade exhibition in Beijing, and the Chinese sponsored trade exhibitions in San Francisco, Chicago, and New York. Those trade shows were

efficient ways to make contact with end-users, survey market prospects and introduce new products for both countries.

Agreements signed in the following years covered aviation, shipping, textile trade, technology and science corporation, and many other areas. Following are some examples.

1) An agreement between the governments of the United States of America and the People's Republic of China on Cooperation in Science and Technology was signed in Washington on January 31, 1979. This agreement was extended on January 12, 1984. The S&T exchange agreement covers 29 fields.

2) An Agreement concerning to Civil Air Transport was signed in Washington D.C. on September 17, 1980.

3) An Agreement on Maritime Transport was signed at Washington on September 17, 1980. This agreement was extended on September 10, 1983.

4) An Agreement with respect to Mutual Exemption from Taxation of Transportation Income of Shipping and Air Transport Enterprises was signed in Beijing on March 5, 1982.

5) Accord on Industrial and Technological Cooperation between the United States of America and the People's Republic of China was signed in Washington D.C. on January 12, 1984.

The agreements spelled out trade principles that the two countries should follow and made the responsibilities of both sides clear.

Although China is not a major trade partner of the United

States in terms of Market share (Table 4), U.S. trade with

Table 4

YEAR	PRC Market Share of US Trade ( % )					
	Export			Import		
	Total	Agri.	Non-Agri.	Total	Agri.	Non-Agri.
1971	0.0000	0.0000	0.0000	0.0001	0.0007	0.0000
1972	0.0013	0.0065	0.0000	0.0006	0.0025	0.0003
1973	0.0105	0.0354	0.0022	0.0009	0.0026	0.0007
1974	0.0084	0.0302	0.0021	0.0011	0.0026	0.0010
1975	0.0029	0.0036	0.0027	0.0016	0.0030	0.0015
1976	0.0012	0.0000	0.0015	0.0013	0.0050	0.0013
1977	0.0014	0.0028	0.0011	0.0019	0.0050	0.0010
1978	0.0061	0.0209	0.0020	0.0027	0.0056	0.0015
1979	0.0097	0.0287	0.0050	0.0043	0.0051	0.0024
1980	0.0176	0.0552	0.0088	0.0071	0.0076	0.0041
1981	0.0165	0.0458	0.0096	0.0091	0.0178	0.0063
1982	0.0140	0.0411	0.0082	0.0087	0.0111	0.0090
1983	0.0110	0.0151	0.0101	0.0094	0.0086	0.0088
1984	0.0141	0.0162	0.0136	0.0112	0.0099	0.0095
1985	0.0184	0.0054	0.0205	0.0127	0.0099	0.0113
1986	0.0149	0.0022	0.0168	0.0154	0.0095	0.0129
1987	0.0142	0.0127	0.0144	0.0155	0.0116	0.0156

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Sources: " U.S. FOREIGN TRADE STATISTICAL REPORT,  
CALENDAR YEAR, 1980-87 ", ERS, USDA.  
" CHINA ", USDA, AUGUST 1982.

China can be and is very important to particular enterprises and sectors of the United States. For example, China was the sixth largest farm export market and the largest wheat export market for the United States in 1980. In 1981, China was the 14th largest U.S. trading partner and the 5th largest market for agricultural exports. At that time, at least 80 American companies had established permanent offices in Beijing and a

large range of cooperation in science and technology had been done (Stoessel).

In the Spring of 1983, President Reagan expressed his desire to see China modernize, when he directed that China should be treated as a "friendly, nonallied" country with respect to U.S. exports of high technology. He thought that a prosperous China would be helpful to the stability of the world and Asia.

In his address of Wolfowitz in 1984, he mentioned three principles that seemed important as guides for the U.S. government's approach to the trade relationship between the two countries, First, that a modern Chinese economy is in both countries' interests. Second, that it should be the role of the government to facilitate and promote trade, though not at the expense of security. Third, that in the trade arena, as in other areas, it is important that both sides live up to the agreements that they made (Wolfowitz).

In fact, the United States did realize their willingness to help China. This is reflected by the categories of the U.S. exports to China. The United States has raised the levels of technology that would generally be made available to China several times. The levels of permitted exports of computers, scientific instruments, and microelectronic manufacturing equipment, were raised significantly. About 75 percent of all export applications for those items mentioned above were processed under the new policy. The new

liberalized guidelines have helped to encourage a healthy increase in U.S. high-technology exports to China (Stoessel 1982). The share of U.S. high-technology equipment in China market increased rapidly after 1979 ( Table 5 ).

**Table 5**

Year	High-Technology Equipment Share of US Export to PRC ( % )	US Share of PRC's Known Import of High-Tech. Equipment ( % )
1979	5	10
1980	7	28
1981	3	16
1982	5	25
1983	24	47
1984	16	33
1985	35	40
1986	35	30

Source: CHINA: ECONOMIC PERFORMANCE IN 1987 AND OUTLOOK FOR 1988, Central Intelligence Agency.

In 1982, about 2,000 American high-technology export licenses were approved, with a total value of just over \$450 million. In 1983, there were 3,300 approvals with value of 1.1 billion, in 1984, the value was over \$1.5 billion (Wolfowitz). The rapid increase of U.S. high-technology exports to China indicates that the U.S. continues to open its door to China and did not treat China as a enemy or potentially dangerous country, but a friendly nation.

In 1986 and 1987, the U.S. was the third largest trade partner of China, behind Hong Kong and Japan. The United

Table 6

Table

## China's Export to USA &amp; WORLD (1000 \$)

Year	World	USA	USA Share	USA Rank
1982	22347920	1798760	0.080488	3
1983	22226410	1722690	0.077506	3
1984	26139030	2432570	0.093062	3
1985	27349820	2339530	0.085540	3
1986	30942050	2631750	0.085054	3

(following Hong Kong and Japan)

## China's Import From the USA &amp; World ( 1000\$)

Year	World	USA	USA Share	USA Rank
1982	19292990	4373910	0.226709	1
1983	21389610	3770040	0.176255	2
1984	27409570	4037440	0.147300	2
1985	42252560	5090190	0.120470	2
1986	42904450	4716690	0.109934	2

(following Japan)

Source: CHINA TRADE AND PRICE STATISTICS IN 1987,  
STATE STATISTICAL BUREAU, PRC.

States was China's largest market for clothing, and third largest purchaser of yarns and fabric (U.S. Central Intelligence Agency).

China made great efforts to successfully promote its foreign trade. In 1986 and 1987, China narrowed its foreign trade deficits. China uses several ways to promote rapid growth in China trade; (1) provides priority domestic investment funds to export-producing projects; (2) allows export-producing Chinese factories to retain a share of their foreign exchange earnings; (3) provides state subsidies to

cover the losses of exporters selling goods at world prices that are below China's costs of production; (4) has devalued the Chinese currency relative to most major world currencies; and (5) finally, China gives foreign investors special tax and other incentives for participation in factories producing for foreign markets. The exchange rates of RMB (Chinese currency) to U.S. dollar were: 1:0.669 in 1980, 1:0.429 in 1984 and 1:0.340 in 1985. In 1987, China's export earnings reached nearly \$40 billion. By 1987, China had signed contracts for more than 10,000 foreign-funded enterprises. All of these factors indicate China's great desire to develop its economy by improving its foreign trade.

During this period, the U.S. experienced constantly increasing imports from China and fluctuating export rates to China. This reflected the changes of China's own economic development strategy and economic policy. From 1977 to 1980, China's imports of manufactured products from the U.S. increased rapidly, this was related to the Normalization. When the Normalization was on its way to being realized, trade relations were more productive and active. Both countries tried to use the volume of trade as a signal of their welcome of the Normalization. After the Normalization, these two countries signed many trade agreements. China demonstrated its immense interest in doing business with the United States. However, because the Chinese government changed its domestic economic policies, U.S. exports of machinery and equipment

fell in 1981-82 from their 1980 level of \$385 million, but rose steadily through the following year to reach over \$2 billion in 1986. China has emphasized the principle of equality and mutual benefit, balance between domestic use and export, and the balance of import and export. China's marketing power depends on its export capability. Since 1985, China has had problems with inflation. One reason was that in a short period, China imported an excess of capital goods and consumer goods. From 1978 to 1982, U.S. exports to China consisted mainly of agricultural commodities. China's agricultural imports from the United States decreased quickly from 1981 and this decline affected the total U.S. exports to China. This reflected the vastly improved performance of China's own agricultural sector. During the following years Chinese agriculture made some big improvements because of the household responsibility systems and good natural conditions. China did not import many agricultural products from the United States from 1983 to 1987. U.S. non-agricultural exports to China have increased significantly since 1982. In 1986, the proportion of U.S. non-agricultural exports to China accounted for 97 percent of the total U.S. exports to China (U.S. Department of Commerce).

The rapid growth of U.S.-China trade is also reflected by the improvements in financial relationships between the two countries. Since the early 1980s, China has enacted more flexible policies toward foreign investment. On October 20,



1980, the First National Bank of Chicago took the lead in establishing a representative agency in Beijing. In June 1981, a representative agency of Chase National Bank opened a business in Beijing. In September 1981, the Bank of China established a branch in New York and a sub-branch in New York's Chinatown. Recently, a Los Angeles branch was also set up. With the expansion of the economic relations between the two countries, many American banks have now established representative agencies in Qingdao, Shanghai, Guangzhao, and Shenzhen. At present, 13 American banks have set up their representative agencies in China. Other financial organizations from China also established representative agencies or offices in America. In recent years, the Bank of China has established agency relations with nearly 120 American commercial banks and 10 investment banks (Wu).

The financial relations between the two countries have been improved significantly since the Normalization. Now many American banks have started to deal with China in a serious fashion. At the beginning of doing business with China, many U.S. banks were concerned about the political and economic environment in China. Since there had been no experience, it seemed risky to do business with China. As experience accumulated, doing business with China became less risky. There are many Sino-U.S. joint ventures, for example, Beijing's Jiangaohotel. China International Financial Co. Ltd. is the first commercial joint venture bank in China,

which has also been established with the joint investments from Chinese and American financial institutions as well as other foreign banks.

The value of U.S. investments in China have increased rapidly. By 1987, China and America had signed 408 contracts for investment projects. The contracts stipulate that the amount of investment from each side is to be U.S. \$3.04 billion, accounting for 13.3 percent of China's total amount of direct investment from foreign countries. Apart from Hong Kong and Macao, America ranks top country that has the largest investment in China. In recent years, the funds China borrowed from the United States have been steadily increasing, for example, \$10 million in 1984, \$17.7 million in 1985, \$158 million in 1986, and \$200.74 million in 1987 (Wu).

The rapid growth of the financial relations have greatly improved the economic relations between the two countries in terms of financial institution numbers and values. China benefited greatly from U.S. financial support, and its domestic economy has made progress over the past ten years. The United States has found a valuable market with great potential. After 1979, about 25 percent of the U.S. Trade and Development Program's (TDP) \$20 million budget was directed to projects in China. Also, the U.S. Eximbank offers China the most favorable interests and repayment terms allowed under the Arrangement on Official Export Credits of the Organization for Economic Development (OECD) (USDC, 1988).

## V. PREDICTING THE FUTURE OF THE SINO-U.S. RELATIONSHIP

### A. Political Relations

Since 1972, the relationships among the United States, China and the Soviet Union have changed dramatically. Now is the first time that the triangle relationship of the three super nations, the U.S., the Soviet Union and China can be improved simultaneously for the last several decades. It is reasonable to reevaluate the Sino-U.S., Sino-Soviet and U.S.-Soviet relationships.

There is a saying in America that the major motivation in U.S.-Sino relations no longer exists, because the stress between the U.S. and USSR is not as obvious as before and the "cold war" is over, meaning the value of China as a political pawn has decreased. Furthermore, along with the decline in the Soviet threat, differences between the U.S. and China on international matters may become more distinct. However, it should be noticed that the only change between the U.S.-USSR relations is that they have turned from military contention to competition. Though the U.S.-Soviet relations have improved dramatically, the nature of their contending with each other has not changed and the confrontation continues. Therefore, America still needs to use China to maintain power. The U.S. is not willing to let China become too close to Moscow, even if the normal China-Soviet relation would be helpful to the peace of Asia. Meanwhile, though Sino-Soviet relations are on their way to normalization, the Soviet threat

to China's security has not yet totally disappeared. While it may be correct that the strategic foundation of the Sino-US relationship has been weakened, it is true that the strategic concerns will still remain as a very important element in the U.S.-China relationship.

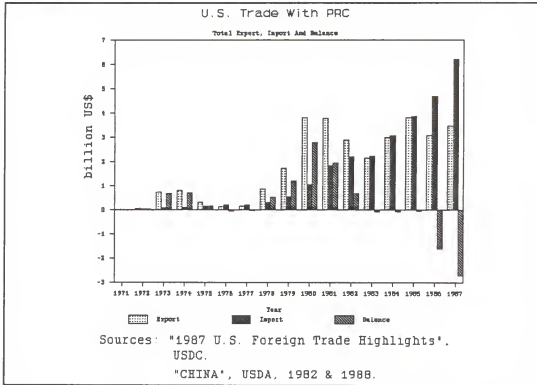
#### B. Economic Relations

China and the United States have maintained talks on bilateral trade and economic issues of mutual interest for many years. There have been annual meetings of the Bilateral Joint Commission on Commerce and Trade (JCCT) and the Joint Economic Committee (JEC), and the negotiations on China's entry to the General Agreement on Tariffs and Trade (GATT) and the market talks are still continuing. However, there are still some trade barrier problems which need to be solved in this area.

The trade between the two countries has not been balanced. The US trade deficit with China has increased in recent years. ( Figure 8 )

In the future, China will be willing to expand its trade relations with the United States, especially high-technology products and some agricultural products. China can not solve the "food problem" completely in the short-term. In the long-run, it will be a big challenge to China to deal with the problem. There are several reasons why the food problem is so serious to the Chinese. First, in each year, a huge amount

Figure 8

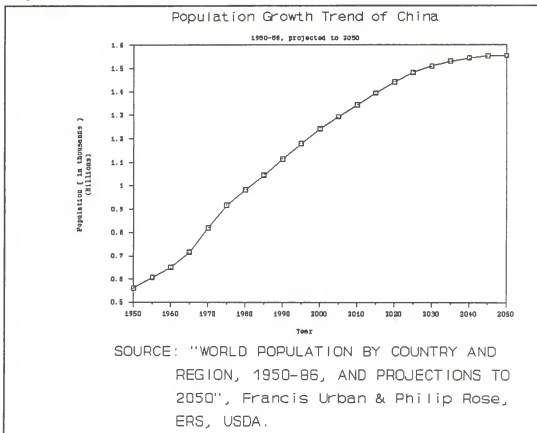


of farmland was taken out of agriculture to be used for non-agricultural purposes. Second, it is impossible to increase crop productivity very quickly in the near future. Chinese agriculture still depends highly on natural conditions, especially on climate conditions. Third, the huge population in China has been making the food problem more difficult. Figure 9 illustrates the population growth and projection in China over 1950 through 2050. In April 14, 1989, China had a record population of 1.1 billion. The population will likely increase for a long time.

There are trade barriers between the two countries which need to be resolved in order to promote an increase in trade.

From the viewpoint of the United States, there are several

Figure 9



trade barriers imposed by China:

(1) China's Tariff and Other Import Charges

China adheres to the traditional use of tariffs as a tool to protect its domestic industry. Between the end of 1985 and mid-1987, tariffs on 21 items were raised. In 1985, China subjected some import items to an "import regulatory tax". This tax is levied in addition to customs tariffs on a range of items including numerous consumer goods, vehicles and synthetic fibers. The purpose of using this tax is to discourage demand for this kind of import. The Chinese Customs Administration reported the weighted average tariff

level was 9.2 percent in 1986, lower than 15.6 percent in 1985. However, tariffs for many industrial items of interest to U.S. exporters are still high.

#### (2) Quantitative Restrictions

China has indicated that its import plan is intended to balance trade bilaterally. It is certain that China will use embargoes to restrict some consumer good imports that have increased rapidly as living standards improved in recent years. The United States estimates that the U.S. exports to China lost about \$10 million in 1986, because the United States does not export a great deal of consumer goods to China.

#### (3) China's Import Licensing

China's import licensing system is very complex. China's Ministry of Foreign Economic Relations and Trade (MOFERT) issues two types of import licenses, "restricted" and "unrestricted". Several other factors also determine whether an import license is required. On June 1, 1987, the number of imports requiring licenses was broadened to cover 45 categories of products and equipment. It was estimated that China's import licensing system could reduce potential U.S. exports up to \$10 million in 1987.

#### (4) Standards, Testing, Labeling and Certification

China has issued regulations for pesticide registration to protect the environment by requiring registration of any new pesticide "put into commercial production." The United

States thought that China did not have similar requirements for its domestic producers and this unequal enforcement of the registrations reduced potential 1986 U.S. agricultural chemical exports to \$20 million.

(5) Lack of Intellectual Property Protection

China has not provided adequate and effective protection in several areas. For example, China did not provide protection for U.S. pharmaceutical and chemical companies, also computer software copyrights. The U.S. estimated that China's inadequate patent protection will cost \$10 million to \$25 million in lost 1987 U.S. export to China.

(6) Service Barriers

Chinese restrictions on certain U.S. services including shipping, insurance, banking, accounting and legal services prevent U.S. firms from participating fully in China's service sector. The economic impact of these barriers is difficult to quantify.

(7) Investment Policy

Over the past several years, China has issued many new regulations and taken steps to encourage foreign investment during the past several years. The policies in the following areas are considered the most critical: treatment of investment; standards for expropriation; transfers of funds; and access to international arbitration for settling disputes. Total cumulative U.S. investment in China from 1979 to 1987 was estimated at more than \$1.5 billion.



## (8) Other Barriers

### a. Lack of Trading System Transparency

China's trading system suffers from a serious lack of transparency. Both U.S. firms and Chinese officials lack a complete understanding of how China's trading system functions. Two factors further complicate this lack of transparency. First, China's trade policy has frequently fluctuated. Second, many U.S. firms believe that China maintains a set of internal rules and regulations governing foreign trade unavailable to foreigners. This forced foreigners into disadvantageous positions when they competed with China's domestic products, for example, organic chemicals.

### b. Foreign Exchange control

China uses administrative foreign exchange control to restrict foreign products' entry into the domestic market. Chinese companies cannot borrow foreign exchange on the commercial market to purchase imports without Bank of China approval. Foreign debt can be held only by bank of China-accredited institutions (Office of the United States Trade Representative, Department of Agriculture & Department of Commerce).

From the Chinese side, trade barriers of the U.S. are as following:

(1) U.S. import quantitative restrictions on some "sensitive products" that are traditional Chinese exports,

such as clothing and some other light industrial products. The restrictions have limited Chinese exports, since the United States is a major market for Chinese products. The U.S. import protectionism may have twofold effects: the first is to cut off China's exports substantially to the U.S.; the second is to cause retaliation and the agreements between the two countries could not be realized. For instance, in 1983, China retaliated the U.S. unilateral freeze of Chinese textile imports by reducing imports of the U.S. grains, cotton and synthetic fibers.

(2) Restrictions of the U.S. on high-technology products. Even though there has been large improvements in technological product trade. China still desires to get more advanced products from the United States.

It is difficult to predict the relationships between the two countries in the future, because we do not know what kinds of policies the two governments will follow. In recent months, the relationship between the two countries has been hurt significantly due to the massacre in Tiananmen Square on June 3, 1989. The tragedy of the student democratic movement being cracked down by the Chinese government with military force has resulted in the Bush administration reconsidering Sino-US relations. On the one hand, President Bush wants to preserve Sino-U.S. relations, on the other hand, he must show his support to the democratic movement. This is a very

difficult decision. The Bush administration has already imposed sanctions against China in support of the democratic movement in China, including suspension of arm sells and the postponement of new loans to China. Further policies might be made. The U.S. businessmen are now extremely concerned with the long-term economic environment of China.

## VI. CONCLUSION

During the past four decades, the Sino-U.S. relations experienced dramatic changes: hostilities in 1950s, antagonism of 1960s, recovery in 1970s, and further development in 1980s. The desire for peace and both countries' strategic concerns made it possible for the two countries to come together. Both political and diplomatic relationships have been significantly improved, and economic relations have improved. Sino-U.S. trade has increased rapidly since 1972. Currently, the U.S. is an important trade partner for China. China also developed its markets in the U.S.. While China is still not a major trade partner of the U.S. in terms of total trade value and market share, China is important to the U.S. in certain export and import products.

Although the trade relationships have improved, there are still problems which need to be solved, and trade barriers need to be eliminated. Otherwise, trade will not capture all of the economic gains which are available for both China and the United States.

Future relationships between the two countries will depend on the two governments' policies toward the other. Because of the Tiananmen Square massacre in June 1989, the Sino-U.S. relations have already been in a volatile situation. It is difficult to predict how far the relations can go in the future.

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The Development Of Trade Between The United States  
And the People's Republic Of China

by

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AN ABSTRACT OF A MASTER'S REPORT

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The rapid growth of the relationships between the United States and the People's republic of China has drawn a lot of attention since 1972. While political and diplomatic relations have been improved, economic and trade relations have been becoming more important. The purpose of this paper is to examine the history of the Sino-U.S. trade relations and future expectations. Focus is on those factors that had significant impacts on trade. Three periods are employed to indicate the development: (1) before 1972; (2) from 1972 to 1979; (3) since 1979.

The political relationships between the two countries before 1972 can be summarized as "open hostilities of 1950s and antagonism of 1960s", which made the trade relations inhabited. During that period, the economic and trade relationships between the two countries were almost nonexistent.

The 1972 Shanghai Communique had historical impacts on the relations between the two countries. From 1972 to 1979, political relationships were improved significantly. The common strategic concern over USSR of both countries remained as a key element in the relations. The trade relations improved quickly with constantly increasing U.S. import from China and fluctuated U.S. export to China. Three reasons were used to explain the U.S. export fluctuation: (1) the main U.S. exports were agricultural products. China adjusted its agricultural imports based on its own agricultural condition; (2) since there was no diplomatic relations, China treated the



U.S. as a residual supplier; (3), U.S. products were not competitive in world markets in some years.

Since 1979 Normalization, the Sino-U.S. relationships have become deeper, more durable and extensive. Economic and trade relations were improved rapidly. There were many agreements signed by the two governments. The U.S. has become a very important trade partner of China.

There are some problems which need to be solved in the future, for example, trade imbalance, trade barriers of both countries.

The Tiananmen massacre of June 1989 made it difficult to predict the future relations between the two countries. what kind of policies these two governments would follow will have great influence on the Sino-U.S. relationships.