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DIRECTORATE OF INTELLIGENCE

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Sino-US Economic Relations

Sino-US trade fell more than 5 percent in 1982, ending five consecutive years of substantial increases. The drop--at a time when bilateral political relations were strained--has raised the specter that Beijing may again be using economic means to pressure the United States. China's leaders, however, maintain they want to keep political differences from affecting the economic relationship, and large investment projects involving US firms remain on track. We believe that, to date, the downturn in Sino-US trade has been caused almost entirely by economic factors and would have followed essentially the same course even under the best of political circumstances. [redacted]

Accumulating problems in the political relationship could, in time, cost US firms a share of the China market. Where close substitutes for US goods are available, Beijing might favor Japan and Western Europe for technology, and Canada, Australia, France, and several LDCs for agricultural goods. [redacted]

The 1982 Downturn

A sharp 19 percent decline in Chinese purchases of US commodities in 1982 has raised fears [redacted] that the deterioration of bilateral political relations could push the commercial relationship back to its pre-normalization status. At that time, China treated the United States as a residual supplier, coming here only when its needs could not be met elsewhere. Chinese traders have heightened this concern by

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occasional statements directly linking declining imports of grain, lumber, and even light machinery to deterioration in the political situation. Beijing's statement last January that it would no longer import US cotton, soybeans, or synthetic fiber in response to US textile restrictions has exacerbated the problem. [redacted]

There is, in fact, evidence that last year's decline was the result of economic factors and that the Chinese leadership is intent on limiting the fallout from bilateral political difficulties. During the recent Hu Na incident, Deng Xiaoping went out of his way to stress [redacted] that economic relations between the two countries will be unaffected by bilateral political differences. The quickening pace of negotiations with US companies for offshore oil contracts, and the recently concluded deal [redacted] to develop the Pingshuo open-pit coal mine suggest the continuing high value which the Chinese place on US investment and technology. [redacted]

The fall in Sino-US trade is in large part the result of bumper domestic harvests which cut into purchases of US agricultural products, especially cotton and soybeans; the Chinese have not purchased US grain so far this year because of high prices. Mounting inventories of synthetic fiber reduced imports from all sources and those from the United States fell 59 percent. Beijing's continued emphasis on economic readjustment held down purchases of US capital goods, especially machinery and equipment. [redacted]

An examination of Chinese imports worldwide reinforces the notion that US products were not singled out for reprisal. Purchases from the developed world as a whole fell 16 percent in 1982. Japan--China's major trading partner--saw its sales to China cut a substantial 47 percent last year. Purchases from Western Europe fell only 6 percent, but the decline is the third in a row, leaving them 30 percent below the peak registered in 1979. Imports from less developed countries have remained flat since 1980, while purchases from other communist countries fell 3 percent in 1982 and remain well below their 1980 peak. [redacted]

Chinese efforts to boost export earnings were more successful in the United States than anywhere else in the world in 1982. Sales to the United States rose 22 percent for the year while shipments worldwide showed a meager 1 percent gain. Exports to both Japan and Hong Kong, China's largest export markets, declined slightly in 1982; both countries, however, continue to take more than two times the value of Chinese goods shipped to the United States. [redacted]

Outlook for 1983

We expect Sino-US trade to expand this year. Beijing currently holds foreign exchange reserves [redacted]

[redacted] Moreover, it still has access to low interest, government-backed credit lines [redacted] in addition to substantial commercial funding. Although Beijing will continue to use caution in spending its reserves, we expect an upturn in purchases to begin soon. Unlike 1978, [redacted] US businessmen currently enjoy the advantages of full commercial relations, the ability to use US EXIM credit for China projects, and several years of experience in the China market. [redacted]

If political relations between Washington and Beijing continue to decline, however, US businessmen could be put at a disadvantage. [redacted]

Other issues seem more manageable, but still have the potential to gradually erode Sino-US economic relations. The Chinese remain highly sensitive to US arms transfers to Taiwan which they regard as a bellwether of Washington's relationship with Taipei. Beijing also remains concerned about US posture toward its admittance into the Asian Development Bank. However, we do not believe this issue will impinge directly on US-China commercial relations in the near term. [redacted]

The Chinese are hopeful that further liberalization of US export controls will emerge from the current policy review underway in Washington. At the same time, they will be suspicious that any changes made will fail to allow them significantly greater access to those technologies that they need most. [redacted] past couple of months and Beijing no longer lists the problem among their litany of grievances with the United States. [redacted]

The problems associated with the Hu Na defection have also run their course, with no apparent affect on bilateral commercial relations. [redacted]

The next month or so should yield important clues as to Chinese intentions. If US grain prices undergo their usual seasonal decline, we expect China to reenter the US market by mid-year. A failure to return to the US market would indicate that Beijing has already implemented restrictions in response to bilateral problems. Grain and lumber would be natural starting points for a boycott of US goods. Both can be obtained elsewhere at little additional cost. [redacted] Other US goods that China could avoid at little additional cost include most types of light machinery, chemical products, steel, and plastics. [redacted]

Even in the absence of additional explicit restrictions against trade with the United States, contentious political relations could inhibit commerce. Lower-level Chinese traders, concerned about their own political futures, may be reluctant to initiate new agreements with US firms if alternative suppliers are available. [redacted]