

TRADE STABILITY, BALANCE, AND TRADING PARTNER OF THE PEOPLE'S REPUBLIC OF CHINA

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THE purpose of this paper is to analyze the trade balance and the trading partners of China and to compare them with those of other countries. The analysis is divided into three different sections. In the first section, China's participation in international trade and the growth rates of her imports and exports will be analyzed. The second section is devoted to the study of China's policy toward her trade balance. In the third section, the change in the composition of trading partners of China over time is investigated. The main findings will be summarized in Section IV. It is hoped that the analysis will shed some light on the general attitude of China toward foreign trade and how it changes over time.

I

One of the marked characteristics of China's foreign trade was the wide fluctuation in value of trade over time.¹ The annual growth rate varied between -24.4 per cent to 71.7 per cent. To give more evidence of the fluctuation in China's foreign trade, Table I shows the normalized standard deviation of annual growth rate ($\rho/\bar{X}$) of foreign trade of different country groups, where ρ and $\bar{X}$ denote respectively the standard deviation and the mean of the annual growth rate of foreign trade in question.

As one would expect, the growth rate of the developed countries was rather stable. However, to one's surprise, China exhibited the greatest fluctuation whereas socialist countries of Eastern Europe exhibited the smallest. Such a drastic difference in the trade performance between these two country-group could be attributed to their degree of stability in foreign trade policy. In

A research grant for this paper from the Chinese University of Hong Kong is greatly appreciated. We wish to thank C. K. Cheung and Y. Tong for their statistical assistance.

¹ Annual growth rate (%) of China's total trade 1951-77 is shown as follows:

1951	57.0	1958	23.2	1965	20.5	1972	24.7
1952	0	1959	13.9	1966	9.4	1973	71.7
1953	21.4	1960	-7.0	1967	-7.8	1974	36.7
1954	2.3	1961	-24.4	1968	-3.3	1975	3.5
1955	29.2	1962	-11.4	1969	2.9	1976	-8.9
1956	2.8	1963	3.9	1970	11.4	1977	13.4
1957	-2.1	1964	16.0	1971	10.8		

See also [4, 1977-78, p. 11].

TABLE I
NORMALIZED STANDARD DEVIATION OF GROWTH RATE, 1950-74

	Imports	Exports
China	1.97	1.48
World	0.99	0.98
Developing countries	1.46	1.40*
Developed countries	0.95	0.88
Socialist countries of Eastern Europe	0.62	0.58

Sources: [4, various issues] [5].

* Year 1974 has been excluded due to its abnormally tremendous growth rate (110.7 per cent) which deviates from the trend significantly.

particular, China's variation in trade performance was, to a great extent, the result of political disturbances or changes in attitude toward foreign trade of the ruling regime. This suggests that in our analysis, it may be advisable to divide the period 1949-77 into different periods corresponding to different political phases.²

Periods 1953-57 and 1971-75, were characterized by high growth rates indicating China's relatively more outward-looking development policy. However, as will be shown later, both the direction of trade and the trade balance were different in these two periods. In 1961-65, there were negative growth rates in both exports and imports indicating China's inward-looking and self-reliance policies which were mainly due to the difficult time caused by the failure of the Great Leap Forward and the withdrawal of the Russian technical aids and blueprints. As for the other three periods, each of them was marked by one particular political incidence which to some extent had an adverse effect on China's foreign trade. In the Great Leap Forward period, China rejected Stalinist model of industrialization in favor of Maoist all-out mass mobilization and participation. More important, China's relation with Soviet Union started to turn sour in the late fifties. In 1966-69, China was facing the Cultural Revolution, putting masses against technical and managerial elites resulting in some absolute decline in industrial output [3]. In the 1976-77 period, China was under the influence of the downfall of the Gang of Four. As a result of these political

² Following Ashbrook [1], we divide the years after 1949 into seven different intervals as follows:

Period	Characteristics	Average Growth Rate over Previous Period (%)	
		Exports	Imports
1949-52	Rehabilitation	—	—
1953-57	First Five-Year Plan	19.35	14.28
1958-60	Great Leap Forward	12.98	9.58
1961-65	Readjustment and recovery	-4.43	-6.85
1966-70	Cultural Revolution up to 1970	4.48	7.64
1971-75	Fourth Five-Year Plan	27.76	30.96
1976-77	Ten-Year Plan	15.68	8.60

TABLE II
AVERAGE ANNUAL REAL GROWTH RATE OF EXPORTS AND IMPORTS
OF DIFFERENT AREAS

	1960-65		1965-70		1965-73	
	Export	Import	Export	Import	Export	Import
China	2.4	-1.6	-0.7	1.3	3.3	6.7
Industrial countries	7.2	7.8	9.6	9.6	9.2	9.3
Developing countries	7.3	5.9	7.4	8.3	8.0	8.3
Centrally planned countries	9.0	5.2	3.5	5.3	6.5	7.2
Developing middle-income countries	8.4	6.8	4.6	9.4	7.2	7.6
Developing lower-income countries	4.5	7.0	4.1	2.3	3.7	2.0

Source: International Bank for Reconstruction and Development, *World Tables, 1976* (Baltimore: Johns Hopkins University Press, 1976).

disturbances, the growth rates of both exports and imports in these three periods were only moderate. Such a "stop-go" foreign trade policy resulting from political instability would prevent China from reaping the fullest benefit of international trade.

Having established China's wide fluctuation in trade value, we want to compare China's long-run growth rate of foreign trade with that of other countries. Table II gives us some crucial results.

Table II indicates that China's foreign trade not only exhibited the undesirable wide fluctuation, but also grew less fast than other country groups. Except for imports in the period of 1965-73 when China's performance outpaced that of the developing lower-income countries, China's real growth rates of both exports and imports were consistently lower than that of other areas by a large margin, indicating her over emphasis on self-reliance or incapability in promoting external trade. An additional evidence of China's low priority in external trade was her negligible share in world trade.

Though China had approximately 20 per cent of the world's total population its share in world trade only amounted to an average of around 1 per cent. Whether this is a natural economic outcome or a result of deliberate policy of the ruling regime is open to interpretation. Since China is a command economy and in view of the close relation between the political events and the volume of foreign trade, it seems that the ruling regime is partly responsible for the relatively small foreign trade sector. A more interesting issue is then to look into the trend of China's participation in world trade. To study this, we have calculated six ratios: China's exports and imports relative to that of the world, the developing countries, and socialist countries of Eastern Europe. The results are shown in Table III. It is interesting to note that China's exports relative to that of the world and developing countries had been falling since the sixties. Though in the seventies, China's exports grew at a faster pace, the decrease in the ratio indicates that her exports still expanded slower than that of the world or the developing countries. However, China's exports expanded faster than the socialist countries of Eastern Europe in the seventies. In general, the export and import ratios in

TABLE III
CHINA'S SHARE IN WORLD TRADE

A. Exports					(%)
	1953-57	1958-60	1961-65	1966-70	1971-74
China/world	1.39	1.75	1.07	0.85	0.79
China/developing countries	5.70	7.89	5.32	4.70	4.32
China/socialist countries of Eastern Europe	16.62	17.60	9.88	8.17	8.76

B. Imports					(%)
	1953-57	1958-60	1961-65	1966-70	1971-74
China/world	1.45	1.61	0.86	0.77	0.76
China/developing countries	5.91	7.09	4.28	4.34	4.56
China/socialist countries of Eastern Europe	18.30	16.20	8.07	7.76	8.30

Source: See Table I.

the 1960s and 1970s were still less than those of the 1950s. All the evidence seems to point to the conclusion that China's participation in world trade had been diminishing in the period under review. Though it started to pick up in the 1970s, its level was still far below that of the 1950s.

II

In this section, we want to discuss the trade balance of China. We know that in the early fifties, China imported massive technology from USSR resulting in huge deficits. Since breaking with USSR, China had been running a huge surplus in the early sixties to pay her debt. The ratio of the trade balance (exports-imports) to the total trade for each period in 1950-77 appeared to be:

							(%)
1950-52	1953-57	1958-60	1961-65	1966-70	1971-75	1976-77	
-9	-2.9	1.8	8.0	1.9	-1.3	7.5	

Source: [4, various issues].

Note: Negative sign denotes deficit.

The data besides illustrating the differences in China's trade balances between the fifties and sixties, also show that since 1958, China had been adopting a conservative policy toward trade balance.³ To find additional evidence to support our claims of China's conservative trade balance policy, we compare China's trade balance with those of other countries (see Table IV).

Comparing with other countries, China was found to have accumulated surplus in many periods while other countries ran a deficit at most of the time. This may be the result of China's lack of foreign capital inflow, or her unwillingness or inability to borrow fund to finance any trade deficits.

³ The deficit incurred in 1971-75 was the result of high inflation in the West which pushed import costs to a peak while world depression had an adverse effect on China's exports. See [2].

TABLE IV
CURRENT ACCOUNT BALANCE AS A PERCENTAGE OF TOTAL IMPORTS

	1950-52	1954-56	1959-61	1964-66	1967-69	1970-72	1973-74
China	-16.5	-8.2	2.4	12.1	6.5	4.6	-7.2
Developing countries*	-9.5	-12.4	-19.7	-20.3	-20.8	-22.3	-22.4
Socialist countries	-1.2	0.03	-5.0	-3.7	-1.3	-4.7	-9.8
Countries with per capita income \$200-400†	-15.9	-18.9	-19.4	-23.2	-22.9	-23.1	-14.8
Countries with per capita income below \$200†	-6.9	-11.7	-23.6	-30.7	-26.1	-20.8	-26.5
Developing countries of South and East Asia	2.5	-9.9	-18.5	-26.5	-26.1	-21.5	-12.6

Source: See Table I.

* Excluding oil exporting countries.

† Excluding oil exporting countries and fast growing exporter of manufactures.

It would be interesting to find out the distribution of the trade balance among China's trade partners. The data show that the trade surplus of China was mainly the result of China's trade with communist countries.⁴ For a number of periods, China had been running a deficit against non-communist countries. The reason is apparently that China had to import technologically advanced machinery from developed non-communist countries but had little to sell back to them.⁵ Since China's exports were largely simple manufactured goods which had limited sales to developed countries and China's imports were mostly producer goods which developing countries were in a relatively disadvantageous position to produce, it is not surprising to find the above result. In addition, the poor relation with some developed countries and the lack of marketing information made China

⁴ China's average annual trade balance against communist and non-communist countries in 1950-77 appeared to be:

	(U.S.\$ million)						
	1950-52	1953-57	1958-60	1961-65	1966-70	1971-75	1976-77
Communist countries	-28	-106	160	304	135	274	180
Non-communist countries	-112	25	-88	-54	-57	-402	875

Source: See Table V.

⁵ China's trade balance against non-communist developed and developing countries in 1965-76 appeared to be:

	(U.S.\$ million)					
	1965	1966	1967	1968	1969	1970
Developed	-345	-425	-710	-630	-560	-880
Developing	400	520	565	595	565	630
	1971	1972	1973	1974	1975	1976
Developed	-620	-585	-1,700	-2,890	-2,860	-1,415
Developing	725	680	1,260	1,705	2,275	2,525

Source: See Table V.

TABLE V
CHINA'S TRADE BALANCE AGAINST DEVELOPING COUNTRIES
(U.S.\$ million)

	Southeast Asia	Hong Kong and Macao	Latin America	Others
1965	170	350	-100	-20
1966	130	395	-100	95
1967	165	310	-5	95
1968	160	325	10	100
1969	115	340	10	100
1970	95	475	5	55
1971	140	560	-45	70
1972	160	690	-190	20
1973	280	1,080	-215	115
1974	365	1,160	-330	510
1975	525	1,365	-205	590
1976	460	1,600	-95	560

Source: [4, various issues].

difficult to develop these export markets. However, when China's relation with the developed countries improves, China may be able to export more to these countries. On the other hand, China's modernization would mean more imports from developed countries, which tends to widen the trade gap. Whether China's trade balance with the developed countries improves or deteriorates depends upon the relative magnitude of these two effects.

Among all the developing countries, it is well recognized that Hong Kong is the most important supplier of foreign currency to China. To support this argument, we disaggregate developing non-communist countries into four categories: Southeast Asia, Hong Kong and Macao, Latin America, and others and calculate China's trade balance against them. The results are shown in Table V.

Thus Hong Kong and Macao accounted for the major share of China's trade surplus. These two cities which have very limited resources and depend heavily on imports certainly are good markets for China's products. On the other hand, Hong Kong and Macao have little to offer to China resulting in the trade imbalance.

It is found that the distribution of the trade surplus among the communist countries was heavily biased towards Asian socialist countries.⁶ It is also interesting to note that since the late sixties, China's trade balance with USSR and

⁶ The ratios of China's trade balance to total trade against different communist countries for each period are shown as follows:

	1950-52	1955-57	1958-60	1961-65	1966-70	1970-74
USSR	-0.11	-0.08	0.08	0.29	-0.08	-0.01
Eastern Europe:						
socialist countries	0.17	-0.14	-0.06	0.11	0	-0.03
Asian socialist countries	0.67	0.63	0.30	0.24	0.42	0.49
Other socialist countries	n.a.	0.33	-0.39	0.16	0.23	0.16

Source: See Table V.

Eastern European socialist countries had been negligible compared with the total trade value. This indicates China's relative conservative trading policy with these countries. The bilateral trade was perhaps the major cause.

So far, our analysis only deals with China's trade policy against individual region. To give a complete picture of China's attitude toward trade balance, we compile the following multilateral trade index, J :

$$J_t = 100 \frac{\sum_s |X_{st} - M_{st}|}{X_t + M_t}, \quad (1)$$

where X_{st} and M_{st} denote China's exports to and imports from country s (region) in year t whereas X_t and M_t denote total exports and imports of China in year t . If China aims at balancing her trade over individual countries or regions, the value of J is small. Otherwise the index will be large. The indices are shown as below:⁷

	1953-57	1958-60	1961-65	1966-70	1971-75	1976-77
(a)	19.9	16.1	25.5	27.1	29.2	25.8
(b)	—	—	—	35.9	36.8	35.0

Since the sixties, the indices had been increasing except for the period 1976-77 when China was under political disturbances arising from the downfall of the Gang of Four. This suggests that, though China adopted a conservative trade balance policy toward USSR and socialist countries of Eastern Europe, China's overall trade policy had become more liberal toward balancing trade against each trading partner.

III

It is well recognized that during the First Five-Year Plan, China's trade policy leaned to one side, the communist countries.⁸ The importance of the communist countries as a trading partner relative to other countries reached the peak in the period 1953-57 when China was implementing her First Five-Year Plan and imported a large amount of completed plants from USSR. Since then, however,

⁷ The index is compiled for two different levels of disaggregation:

- (a) disaggregation according to countries: United States, Canada, France, Italy, United Kingdom, West Germany, Japan, Hong Kong, Malaysia and Singapore, USSR, and the rest of the world;
- (b) disaggregation according to area: East Asia and Pacific, Western Europe, North America, other developing countries, Southeast Asia, Hong Kong and Macao, Latin America, other less developed countries, USSR, Far East communist countries, Eastern Europe, and other communist countries.

⁸ The share of communist countries in China's total trade for each period in 1950-77 appeared to be:

1950-52	1953-57	1958-60	1961-65	1966-70	1971-75	1976-77
0.528	0.690	0.663	0.425	0.218	0.179	0.172

Source: See Table V.

communist countries share had been decreasing. Actually, in the sixties, China's total trade with communist countries fell in value. Though China's trade with communist countries picked up in 1970 after sliding down from their peak, the total trade value never went up to the level of 1959. More important, despite its upward trend after 1970, the communist share in China's total trade compared with that of the non-communist countries remained stable at 0.17 in the seventies, a rather low figure compared with 0.69 occurred in 1953-57. The deterioration in relation between China and USSR accounted for the major fall in the share of the communist countries.

However, it is worth to note that for both exports and imports, the share of communist countries in China's foreign trade was larger than those of other non-communist country groups.⁹ This is understandable. However, two observations are worth special attention. First, the share of communist countries in China's foreign trade was significantly lower than that of the socialist countries of Eastern Europe. The second was the downward trend of the share of communist countries in China's foreign trade. These indicate that China's composition of trading partners deviated from that of the socialist countries of Eastern Europe but converged toward the world pattern.

The above analysis shows that communist countries had been losing their market in China to the non-communist countries. It would be interesting to know which communist country bore the major burden. To have a more concrete measure of how much a country lose to another in their trade with China, let Q be the value of trade between China and a particular trading bloc under consideration and Q_i be the value of the trade between China and the i th country-group in the bloc. Define S_i as the share of the i th country-group in the bloc. Thus,

$$Q_i = S_i Q. \quad (2)$$

Differentiating (2) and rearranging it, we obtain

$$Q \Delta S_i = \Delta Q_i - S_i \Delta Q. \quad (3)$$

If the competitive power of the i th country-group remains unchanged, then S_i

⁹ The share of communist countries in the foreign trade of different country groups:

	1965		1973		1976/77	
	Export	Import	Export	Import	Export	Import
China	33.0*	26.4*	21.6†	15.3†	17.1	17.3
World	11.8	11.6	10.5	10.0	n.a.	n.a.
Developed market economy	4.2	3.7	5.2	3.8	n.a.	n.a.
Developing countries	7.4	8.5	5.4	8.5	n.a.	n.a.
Socialist countries of Eastern Europe	67.2	68.7	61.4	61.8	n.a.	n.a.
Developing countries of South & Southeast Asia	8.0	9.8	4.7	6.5	n.a.	n.a.

Source: See Table I.

* Average of 1964, 1965, and 1966.

† Average of 1972, 1973, and 1974.

TABLE VI
VALUE OF $\Delta Q_i - S_i \Delta Q$ OF CHINA'S TOTAL TRADE WITH SOCIALIST COUNTRIES

	1950-52	1953-57	1958-60	1961-65	1966-70	1971-74
USSR	—	-93	-168	-240	-294	16
Eastern Europe: socialist countries	—	32	80	-133	141	55
Asian socialist countries	—	59	78	136	57	28
Other socialist countries	—	—	—	237	90	-87

Source: See Table V.

will be stable and $\Delta Q_i - S_i \Delta Q = 0$. If $\Delta Q_i < S_i \Delta Q$, this implies that the i th country-group is losing her competitiveness, for political or economic reasons, in the China's market. The communist countries are disaggregated into four different regions: USSR, Eastern Europe, Asian socialist countries, and others. The value of $\Delta Q_i - S_i \Delta Q$ of total trade for each region is given in Table VI.

Two consistent patterns can be deduced from Table VI. The first one was the constantly less-than-proportional growth of China's trade with USSR, though at the last period, USSR gained a small amount. The other was the constant gain in export share of Asian socialist countries in the period under review. This is not surprising, given the changing relation between China and USSR.

Turning to the other side of the coin, the non-communist countries occupied a slightly increasing share of China's exports with an average of 44 per cent. As for the import side, except for the year 1965, the share fluctuated around 80 per cent.¹⁰ Thus, most of China's imports from the market economies came from developed countries whereas most of her exports were sold to developing market economies. This is easily understood since most of China's imports were intermediate goods and machinery which the developed countries had a comparative advantage in their production. On the other hand, her exports were not sophisticated enough to gain market in the developed countries.

How did China differ from other country-groups in the trade performance with developed non-communist countries?

As shown in Table VII, to one's surprise, the share of developed countries, as far as imports are concerned, did not differ very much among different areas: around 75 per cent of the imports coming from non-communist countries originated from developed areas. In particular, if we look at China, we find that the share of developed countries was over 70 per cent and demonstrated an upward trend. On the other hand, less than half of China's exports to non-communist countries were sold to developed ones whereas other areas managed to sell over half of their products to them. As argued above, this is the result of China's

¹⁰ The average shares of developed countries in China's trade with non-communist countries in 1965-76 were,

	1965	1966-70	1971-75	1976
Exports	0.415	0.433	0.447	0.448
Imports	0.692	0.815	0.795	0.837

Source: See Table V.

TABLE VII
SHARE OF DEVELOPED NON-COMMUNIST COUNTRIES IN THE TOTAL TRADE
WITH NON-COMMUNIST COUNTRIES

	1965		1973		1975/76	
	Export	Import	Export	Import	Export	Import
China	42.8*	71.8	45.3†	77.6†	45.0	84.9
World	77.0	77.8	79.7	78.9	n.a.	n.a.
Developed market economy	80.0	78.6	80.9	79.3	n.a.	n.a.
Socialist countries of Eastern Europe	63.7	68.4	66.3	78.8	n.a.	n.a.
Developing countries of South and Southeast Asia	64.9	74.8	72.2	71.0	n.a.	n.a.

Source: [5].

Note: The ratio is calculated by using the following formula:

$$\frac{\text{exports (imports) to (from) non-communist developed countries}}{\text{exports (imports) to (from) non-communist countries}}$$

* Average of 1965 and 1966.

† Average of 1972, 1973, and 1974.

failure in exploiting the markets in developed countries and the limited demand for China's simple consumer products in these areas.

Before we analyze China's trade relation with individual developed and developing countries, it would be informative to indicate the degree of concentration of China's overall trade by dividing her trading partners into communist countries, developed and developing non-communist countries. A useful index is the Hirschman index of concentration, H ,

$$H = \frac{m}{m-100} - \frac{100}{m-100} \sqrt{\sum_{i=1}^n \left(\frac{X_i}{X} \right)^2},$$

where

n = number of regions,

X_i = value of trade between country i and China,

$X = \sum_i X_i$, and

$$m = \frac{100}{\sqrt{n}}.$$

It can be shown that if trade is distributed equally among regions, then $H=0$. The higher the index, the more concentrated is the distribution. The value of the concentration index according to the above disaggregation is given in Table VIII.

Notice that the concentration index for imports was always higher than that of exports in the case of China's trade against the world, indicating that the import market was more concentrated than the export market. The explanation is not far to seek. China imported mainly machinery and technologically advanced products and hence the import market was dominated by developed market economies. The concentration index clearly had exhibited an upward trend since 1965. The increase in concentration is not necessarily undesirable especially

TABLE VIII
HIRSCHMAN'S CONCENTRATION INDEX FOR CHINA'S TRADE WITH THE WORLD
AND DEVELOPED COUNTRIES

	1965	1966-70	1971-75	1976
The world:				
Total trade	0.008	0.081	0.109	0.113
Imports	0.085	0.306	0.314	0.338
Exports	0.014	0.033	0.051	0.089
Developed countries:				
Imports	0.63	0.64	0.61	0.65
Exports	0.69	0.69	0.68	0.65

Source: See Table V.

Note: The world is disaggregated into communist countries, developed and developing non-communist countries; developed countries are disaggregated into East Asia and Pacific, Western Europe, and North America.

when the countries are grouped under such a broad classification. As suggested above, such an increase in concentration was attributed to the growing importance of trade between non-communist countries and China.

If we subdivide developed market economies into East Asia and Pacific, Western Europe, and North America, we will find that the first two areas dominated the market, each occupied more than 40 per cent of the market, whereas North America only occupied a negligible share from 1965 to 1976. The difference in the shares between Western Europe and North America seems to be larger than could be explained by their economic differences. This was mostly a result of political relation. Thus if the relation between China and America continues to be improved, America will be a keen competitor to Western Europe for China's market.¹¹ The shares of these three regions were rather stable over 1965-76 as little variation occurred in the Hirschman's concentration index compiled for these areas (see Table VIII).

If we disaggregate the developing countries into Southeast Asia, Hong Kong and Macao, Latin America, and others, we will find that their shares in China's exports were rather stable. However, China's imports from these four areas were getting more diverse.¹²

To round up the analysis of China's trading partners, we will compute an overall concentration index for China's foreign trade. In this case, we divide

¹¹ This is further supported by the high correlation coefficient between the shares of Western Europe and North America in China's imports ($r^2 = -0.792$).

¹² Their average shares for these four areas in China's trade with developing non-communist countries between 1965-76 are shown as below:

	Southeast Asia	Hong Kong and Macao	Latin America	Others
Exports	0.227	0.457	0.013	0.303
Imports	0.221	0.025	0.178	0.576

Source: See Table V.

China's trading partners as follows: United States, Canada, France, Italy, United Kingdom, West Germany, Japan, Hong Kong, Malaysia and Singapore, USSR, and the rest of the world. The average index for each period is indicated as below:

	1953-57	1958-60	1961-65	1966-70	1971-75	1976-77
Imports	0.520	0.418	0.407	0.271	0.260	0.305
Exports	0.392	0.399	0.325	0.326	0.292	0.271

Both imports and exports exhibited a trend of diversification.

IV

In this paper, we find that China's external trade fluctuated more widely than other countries. In addition, China's long-term growth rate of foreign trade was less than those of other countries; her share in world trade had been falling in the period under review (1953-74). However, there are signs that this downward trend was reversed towards the end of the seventies. China's modernization policy will certainly result in an increase in her participation in international trade. Concerning China's trade balance policy, China adopted a very conservative policy relative to other countries. While most developing countries ran a deficit, China accumulated surplus. On a disaggregating basis, it is found that China's trade with USSR and communist countries of Eastern Europe was nearly balanced in the seventies. However, taking all trading partners as a whole, China's trade balance policy had been relaxed since the sixties. In particular, China had been running a huge surplus against the developing countries to earn foreign exchange to pay for her deficits against the developed countries. Concerning China's trading partners, the importance of the communist countries had been decreasing. This is especially true for the case of USSR. Though China is a communist country, the composition of her trading partners, classified according to communist and non-communist countries, resembled that of the world more than that of the communist countries. However, less than half of China's exports to non-communist countries were sold to developed ones which differed from the world pattern. This may be the result of China's poor relation with some developed countries in the past. As for the concentration of trading partners, however, we find that China had, on the whole, been diversifying her direction of trade.

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