

The Foreign Trade of China: Policy, Law and Practice by Gene T. H siao

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The Foreign Trade of China: Policy, Law, and Practice. By Gene T. Hsiao. Berkeley and Los Angeles: University of California Press, 1977. Pp. xxi, 291. \$22.50.

The Foreign Trade of China is a lawyer's and political scientist's account of the objectives, organization, and operation of the external trade of the People's Republic of China, rather than an economic analysis of the subject. Contrary to the publisher's note, the topic has not been "largely ignored" in the West since the establishment of the People's Republic. The author's extensive source references testify to the existence of several important and perceptive Western works in the area by Eckstein, Chiu, Holtzmann, Mah, and Stahnke, among others. While useful, informative — even illuminating at times — *The Foreign Trade of China* is not a "pioneering study." Nonetheless, it is a welcome addition to the literature.

The book is introduced by Jerome Cohen who in a brief Foreword argues that it is vital to learn as much as possible about China's foreign commerce in order to make the most of the opportunity provided by existing Sino-American commercial contacts to restore ties between the United States and the People's Republic.

Hsiao's work is divided into two parts. The text (seven chapters) encompasses roughly two-thirds of the work and twenty appendices occupy the remainder. There is a useful bibliography of documents, books, and articles in Chinese and English (pp. 263-277). The prose is readable; the tone detached; the argument rational and painstakingly documented.

A short historical introduction is followed by chapters dealing with China's foreign trade policy objectives, the Japanese experience of trading with the PRC, the organization of the Chinese Ministry of Trade (including foreign trade corporations and the China Council for the Promotion of International Trade), trade treaties and agreements, contracts and means of settling disputes. The treatment ranges from the enumeration and discussion of broad principles (e.g., "China's foreign trade policy consists of two basic objectives: development of the national economy and promotion of international relations") to detailed tips on how to get to the Kwangchow Fair ("send three passport-size photographs"). In this sense the book has something for everyone: the scholar, the journalist, the businessman, and the

businessman's lawyer. This impression is reinforced by the appendices which range from the general (Constitution of the People's Republic of China) to the particular (form of insurance certificate issued by the People's Insurance Company of China). The combination of political-legal analysis and businessman's guide is, by and large, carried off well. However, any book which addresses itself simultaneously to diverse readerships is bound to lose something in focus, appeal, and coherence: too many ingredients spoil the broth.

The book's basic message is that foreign trade is used by China's leaders to support the leadership's economic and political preferences. External commerce supports the industrialization of a country whose developmental strategy stresses agriculture as the "foundation" (meaning, essentially, investment pace-setter) of the economy, and regards self-reliance as an excellent starting point for the developmental effort. Self-reliance is not to be equated with autarky: it is taken to mean avoidance of "too much" indebtedness to foreigners — an attitude that for China is historically understandable. Because of this attitude, the continental dimensions of the country, and for technical reasons (there is really not that much that can be exported at this time), foreign trade has been for China a residual activity: perhaps five per cent of gross national product (current price basis) from 1950 through 1974; \$15-17 per head of population in 1974 (about \$3 in 1952). (Compare this with Taiwan's 90 per cent of GNP and \$803 per head in 1974).

On purely economic grounds, trade with the People's Republic of China is of peripheral interest to the United States. At its most active stage it has not exceeded one-half of one per cent of total U.S. foreign trade turnover. With respect to its neighbor, Japan, in 1975, only four per cent of Japan's products were exported to, and two and one-half per cent of imports came from the PRC. Assuming that the more optimistic predictions about China's petroleum production and exports do, in fact, materialize, by 1985 only about one-fifth of Japan's oil consumption needs could be satisfied from Chinese sources. All this is quite marginal. So what's all the fuss about? The attraction of the China trade for the outside world has not been actuality but expectation: not the realized volume of transactions but the potential buoyed by a vision of 900 million customers led by a determined, development-oriented regime. Since the death of Mao and the Hua Kuo-feng regime's stated intention to vigorously pursue the "four modernizations" — which imply stepped-up Chinese imports of plant,

equipment, and technology — the level of expectations has risen to new heights.

External commerce, the author also argues, is used by the Chinese communist leadership to promote China's international political objectives. The old saying which has it that trade follows the flag is reversed: in China's case commerce precedes and paves the way for the flag. Commercial relations have been used in the past as one of the means to pressure foreign governments to grant official recognition to the People's Republic. Nowhere has the use of trade for this purpose been clearer than in China's relations with Japan. One can learn a great deal from Hsiao's Chapter Three in which he details this drama. Also discussed is the enormous determination of the Chinese to bend the neighboring economic giant to their political will, the sheer gall of it reminiscent of the Foolish Old Man Who Removed the Mountain. One can also reflect upon the disarray on the Japanese side as the capitalists scramble each for himself to make an extra yen. Today, much the same procedure is employed by the PRC to overcome what Hsiao calls "the final major problem in China's continuing effort to win global recognition," i.e., the problem of getting the United States to let Taiwan go. From a high of about \$1 billion in 1974, US-PRC trade has dropped to roughly half that amount. It is not likely to rise, the Chinese hint, unless political relations between the two countries are normalized, and these relations will not be normalized unless the United States withdraws its recognition and other commitments from the Republic of China on Taiwan. Were the United States to take the hint, the China trade may likely balloon to one maybe two per cent of total U.S. foreign trade turnover.

A consequence of the self-reliance stance has been China's reluctance to go into external long-term debt. This has meant that trade could expand only at the rate permitted by the expansion of China's exports, mainly foodstuffs, crude materials, fuels, and edible oils. More recently the Chinese have become more relaxed and have engaged in discreet deposit borrowing from Japan through the Bank of China's Hong Kong branches. Hsiao refers briefly to this development on page 59. However, even the deferred payments route (financing costly imports through credit arranged by the selling company) has involved the PRC in fairly high levels of external debt. The claim frequently made by Chinese officials that China has no external debts, just does not hold. In 1976, for example, the PRC's external obligations were estimated by the National Council for United States-China Trade at \$1.3 billion or

roughly 23 per cent of China's 1976 hard currency earnings with the non-communist countries. In 1977 China's external debt was again in the \$1.2-1.3 billion range. One could put it this way: money, perhaps more than questions of "normalization" and Taiwan, has been holding back Chinese purchases from the United States.

In his discussion of the PRC's trade treaties and agreements (Chapter Five) and of trade contracts and the means used to settle disputes (Chapter Six), the author provides much useful business and legal information for the China trader. The general impression conveyed is that the legal foundation is a flimsy one, which does not, Hsiao argues, necessarily mean unreliability or exceptionally high levels of risk for those doing business with the PRC. China does not have corporate law; the charters, if any, of its national foreign trade corporations have not been revealed. The country has never acceded to the Vienna Convention on the Law of Treaties or to the U.N. Convention on the Recognition and Enforcement of Foreign Arbitral Awards. No foreign citizen may operate a firm in China, but Chinese state-owned firms incorporated in Hong Kong can establish branches in other countries without obligating the PRC government to reciprocate. To date, China's trading partners have been willing to put up with this vagueness and one-sidedness since competition for the China market has been keen. However, it is likely that in the future the PRC will have to adopt some laws relating to foreign trade and exercise the flexibility it seeks within a framework of formal rules and regulations. Like the traders, Hsiao is inclined to give China the benefit of the doubt. One need not always agree with him to appreciate the contribution his book makes to a better understanding of China's foreign economic behavior.

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