U.S.-China Trade Relations in the 1970s

And Hong Kong's Role

Mei Renyi   Chen Juebin

Beijing Foreign Studies University

Common strategic interest of thwarting Soviet expansionist policy brought the United States and China together, which was marked by President Nixon's unprecedented visit to China in 1972. A thawing of political relationship made it possible for the two countries to develop trade relations which were previously almost non-existent in terms of direct trade.

In the 1950s and 1960s, trade was used as an important means to put pressure on China to bring about the collapse of Communist rule. Mechanisms were set up to oversee the strict enforcement of rigid blockade. Chiang Kai-sheik's naval harassment of mainland China's coastal sea lanes posed a constant threat to China's trade with other countries.

However, the thawing of relations between the two countries took place with new situations in their domestic economies. First, in the 1950s, China relied heavily on Soviet economic aid and technological support. The polemics between the Soviet Union and China in the early 60s greatly affected mutual trade. China needed to look for new sources of supply and new markets. Second, American economy in the late 1960s and early 1970s was in constant minor recessions which led to Nixon's new economic policy. Third, the 1960s saw the recovery and rebound of Western European and Japanese economy. The rejuvenation of the economy in these countries would naturally compete on the world market.

It was against such political and economic background that China and the United States began their trade relations. Trade volume increased rapidly from zero in 1970 to $2.378 billion in 1979. (Table I)

Table I: China's Trade Volume with the U.S. 1970-1980 (million dollars)

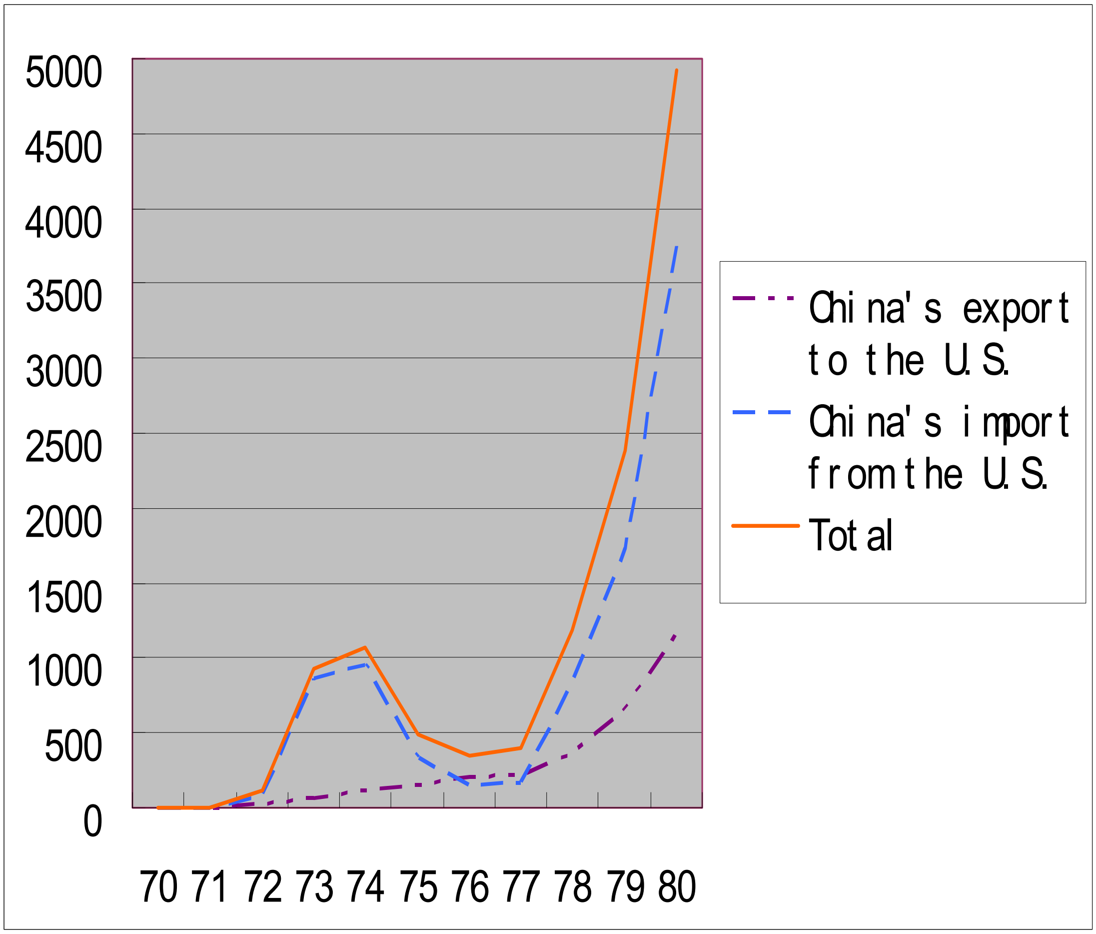
	70	71	72	73	74	75	76	77	78	79	80
Export	0	5	32	64	115	158	202	223	356	654	1,164
Import	0	0	79	862	949	334	149	171	824	1,724	3,754
Total	0	5	111	926	1064	492	351	394	1,180	2,378	4,918

Source: 70~78 Reports to the U.S. Congress Joint Economic Committee Page 743, 1978

79~80 U.S. Department of Commerce, 1996

A close look at the breakdown reveals that trade relations between the two countries were not smooth sailing. There were two growing periods: from 1973 to 1974 and from 1978 to 1979, and one downward slope, from 1975 to 1977 as shown in Figure I.

Figure I: Growth and Fall in China's Trade with the U.S. in the 1970s (10,000 dollars)



Source: 70~78 Reports to the U.S. Congress Joint Economic Committee Page 743, 1978

79~80 U.S. Department of Commerce, 1996

The ups and downs of trade relations coincided with the twists and turns in the process of normalization of U.S.-China relations in the same period. Therefore, it was necessary to clarify the political framework for the development of U.S.-China trade relations before a closer look at the features of each period. In most of the time under study, China and the United States had neither normal diplomatic relationship nor a trade agreement. The consequences were: firstly, politics was the decisive factor. Trade was generally regarded as secondary to and a by-product of politics in most of the 1970s. Trade between the United States and China had no room for independent development. Secondly, no trade agreement meant no most-favored nation status for China, which greatly undermined the competitiveness of Chinese products on the American market and limited China's export to America. Limited export resulted in tight foreign exchange reservation and limited import ability on China's side. Besides, American foreign policy trade control was still in place in its trade with China, which prevented the export of goods with high-tech content to China.

In addition, domestic development of the United States and China had adverse effect on trade development. In China, as a result of the rampancy of leftist ideology and the intrigues of the "Gang of Four", Zhou Enlai and then Deng Xiaoping were under attack for their efforts to rebuild China's economy and their handling of relations with the United States. The death of Zhou Enlai and then Mao Zedong and the downfall of the "Gang of Four" put domestic stability and reorientation of policy the top priorities for China, leaving little room for Sino-U.S. relations. In the United States, the final withdrawal from Vietnam, the fourth Middle Eastern War, the oil crisis and then the Watergate scandal took up much of the time and energy of the Nixon Administration, making it drag its feet on U.S.-China relations. The subsequent administrations had to deal with the Vietnam War legacy and Watergate impact and Soviet invasion of Afghanistan and Iran hostage crisis, so again the issue of U.S.-China relations was low on the agenda most of the times.

Against such unfavorable international and domestic situations, trade relations would certainly be affected. This paper aims at offering a brief analysis between politics and trade, how domestic political atmosphere affected foreign trade and the role of Hong Kong during this period.

Trade Growth

The first period of rapid trade growth between 1971 and 1974 was the direct result of improvement of political relations between the two countries. It was also the strong economic needs of China and to a lesser degree, the United States.

After the founding of the People's Republic of China, Mao Zedong and his comrades-in-arms decided that China's economic development should take heavy industry as priority. The Korean War reinforced such resolution. This was based on the analysis that sooner or later the two camps in the world, socialist and capitalist, would come to war. A third world war could be postponed but not avoided. To prepare for the eventuality, China needed to concentrate its limited resources on the building of heavy industry bases. For about twenty years, China developed its heavy industry at the expense of investment in and development of agriculture. The People's Commune movement in the late 50s and the movement of nipping the bud of capitalism in the rural area in the mid-60s before the beginning of the Cultural Revolution further dampened the enthusiasm of peasants in raising production. The low output in agriculture could not meet the demand of a growing population. Agricultural supply was scarce.

Grain output in 1959 was put at 170 million tons, slightly more than the 169 million tons in 1954. In 1978, grain output stood at 304 million tons. However, China's population had grown from 672 million in 1959 to 962 million in 1978, an increase of more than 43%. What made things worse was the major nationwide drought and the extreme cold weather in Northeast China in 1972. China's total grain output of 1972 was 20 million tons less than that of 1971. In order to feed the country, China decided to import grain. The United States had long been the largest grain exporter on the world market. In addition, in the 1970s grain supply became greater than demand in the United States and grain export became a major issue in agricultural development in the United States. These factors together made China choose the United States as its source for a large proportion of the import. Agricultural products (wheat and corn) became the most important single item of import from the U.S., making up 97%, 69% and 58% of the total U.S.-China trade volume in 1972, 1973 and 1974 respectively, as shown in Table II. China imported 4 million tons of grain from the U.S. in 1973 and 2.78 million tons in 1974. In addition, raw materials, including agricultural products like cotton, also accounted for a large percentage of U.S.-China trade, 20% and 26% in 1973 and 1974 respectively.

Table II: Composition of U.S. Export to China (million dollars)

Year	Total volume	Agricultural products		Chemical products		Raw materials		Heavy machineries		Electronic products		Other products	
		Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
1971	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
1972	60.2	58.2	97	0.0	0	0.0	0	0.1	0	0.0	0	1.9	3
1973	689.1	47.4	69	7.9	1	137.1	20	63.5	9	0.1	0	6.1	1
1974	806.9	466.7	58	10.2	1	213.4	26	100.2	12	2.2	0	14.2	2
1975	303.6	0.2	0	5.3	2	163.9	54	110.5	36	2.1	1	21.6	7
1976	134.4	0.0	0	10.4	8	50.6	38	61.8	46	1.8	1	9.8	7
1977	171.3	46.5	27	19.6	11	47.7	28	47.9	28	3.7	2	5.9	3
1978	820.7	421.9	51	60.2	7	220.8	27	35.2	4	18.8	2	63.8	8
1979	1724	638.5	37	125.3	7	647.8	38	86.0	5	78.0	5	148.4	9
1980	3754.4	1508.2	40	381.7	10	1405.4	37	230.7	6	106.6	3	121.8	3

Source: U.S. Census Bureau Statistics

With the collapse of the Lin Biao clique in 1971 and the reinstitution in power of Deng Xiaoping in 1973, the Chinese Communist Party leaders felt that it was time to put an end to the chaotic situation in the economic field and to reinvigorate industrial development. Ministries related to economic development were encouraged to find ways to import advanced equipments and technologies. The peak of this drive came in the form of the “Four-Three Plan”, drafted by the State Planning Commission in 1972. The “Four-Three Plan” aimed to take the advantage of economic recessions in the West to import $4.5 billion worth of complete sets of equipments in the next 3~5 years, including 13 sets of large fertilizer machines, 4 sets of large chemical fiber machines, 43 sets of comprehensive coal mining machines and others. As shown in Table II, China’s import of heavy machineries from the U.S. increased from $0.1 million in 1972 to $63.5 million in 1973, $100.2 million in 1974 and $110.5 million in 1975. The percentage of heavy machineries in China’s total import from the U.S. also increased from 0.001% in 1972 to 9% in 1973 and 12% in 1975.

On the U.S. side, the U.S. government took a number of steps to open the door for direct trade with China. The Department of States permitted overseas branches of American companies to sell non-strategic products to China and partly lifted the trade embargo against China in 1969. In 1971, the White House publicized the list of non-strategic trade items with China, ending the 21 years of trade embargo against China.

In the early 1970s, the trade condition of the U.S. was not particularly good. In 1971, for the first time since 1890, the nation was importing more than it was exporting. This major trade deficit, combined with the increased price of crude oil after the first energy crisis in 1973, led the U.S. government to consider seriously about the export market for the United States.

The U.S.-China Trade Council, established in 1973, served as a mechanism in smoothing trade between the two countries. Since the United States and China still did not have diplomatic relationship, it was difficult to exercise governmental regulations over U.S.-China trade. The U.S.-China Trade Council filled in the blank, organizing visiting tours and delegations to each other countries and meditating trade disputes between the two countries.

These economic incentives, together with the favorable political atmosphere in the early 1970s created a good restart of U.S.-China trade relations.

The Fall in Trade

The effect of no diplomatic relations and no trade agreement was felt in the mid-seventies when the normalization process came to a standstill. The total U.S.-China volume slumped from $1,064 million in 1974 to $351 million in 1976, a drop of nearly 70%. China's import from the United States fell from $949 million in 1974 to merely $149 million in 1976, a drop of over 80%. Such a sharp fall was chiefly due to the standstill in the normalization process and domestic politics in China and the United States respectively.

In 1972, during his talks with President Nixon, Premier Zhou said, "…We have already waited over twenty years (regarding Taiwan)—I am very frank here—and we can wait a few more years."[1] During a talk with Kissinger, Chairman Mao said, "…you said the United States asked nothing of China and China asked nothing of the United States. As I see it, this is partially right and partially wrong. The small issue is Taiwan, the big issue is the world."[2] Later he said, "It's better for it (referring to Taiwan) to be in your hands. And if you were to send it back to me now, I would not want it, because it's not wanted."[3] It was clear that Chinese leaders tried to downplay the Taiwan issue then to facilitate bilateral cooperation over the "big issue". Meanwhile, the United States was performing relatively well in terms of respecting the Shanghai Communiqué. Therefore, the Taiwan issue, although of great importance, was not a particularly tough problem in the early 1970s. The situation changed in the mid-seventies. As a result of the Watergate scandal, Nixon resigned in July 1974 and Ford, as a non-elected President, became the host of the White House. In this sense, Ford had inherent weakness as President. On the issue of Taiwan, he took some steps, such as signing a bill to rescind the Formosa Resolution and withdrawing troops from Taiwan. But at the same time, Ford was facing criticism from conservative Republicans for being soft on Communism. A number of measures taken by the Ford Administration toward Taiwan angered China. In 1974, the United States government approved Taiwan's establishment of consulates in Kansas City and Portland, violating relevant clauses in the Shanghai Communiqué. On Nov. 14, 1974, Henry Kissinger once again visited Beijing, bringing with him a proposal of "reversed liaison office" model. This was flatly turned down by Deng Xiaoping, who was acting on Premier Zhou's behalf because Zhou was hospitalized. Deng called the proposal a back-track of previous promise. Kissinger was not even given the chance to meet Mao this time. On April 5, 1975, Chiang Kai-sheik died in Taipei. By the request of the Taiwan government, the Ford Administration sent Vice President Rockefeller to attend Chiang's funeral, representing the United States. Rockefeller became the first top-level United States government official to visit Taiwan under official titles since the signing of the Shanghai Communiqué. Since Rockefeller had recently represented the United States at the funeral of the King of Saudi Arabia, his presence at Chiang's funeral gave Chiang the treatment of a head of state. Moreover, in 1976, the U.S.-Taiwan Economic Conference of Cabinet Level was established in Chicago. All these new developments greatly hindered the progress of normalization. Unfavorable political condition prevented the healthy development of trade relations.

1975 and 1976 also saw the "Gang of Four" at the peak of its power. At the end of 1973 and beginning of 1974, initiated by Mao Zedong, the Politburo of the Chinese Communist Party organized a

[1] William Burr, ed. *The Kissinger Transcripts*. New Yorker: The New Press, 1998: p66
[2] *Ibid*: p.391
[3] *Ibid*: p.392

series of meetings to criticize Zhou Enlai for his “wrong” handling of negotiations with Kissinger and wrong analysis of world situation. The “Gang of Four” greatly benefited from this. The “Four-three Plan” of 1972 made arrangements to import advanced equipments on a large scale, which required large amounts of government investment and led to fiscal deficits. Since China’s export was not strong then, trade deficit also began to build up. In the case of U.S.-China trade, China’s trade deficit with the United States was $47 million in 1972 and built up to $798 million in 1973 and $834 million in 1974. This rapid increase of China’s fiscal and trade deficits was used by the “Gang of Four” as evidence against Zhou Enlai and other leaders in charge of national economy and the policy of introducing advanced foreign technologies and equipments into China. As a result, China’s import from the United States dropped sharply. China’s import from the United States dropped from $949 million in 1974 to $334 million in 1975 and $149 million in 1976 and only regained slightly to reach $171 million in 1979. During the same period, China’s export to the United States was actually increasing.

With no most favored nation treatment from the United States, Chinese goods were faced with high tariffs when they entered the U.S. market as shown in Table III.

Table III: Tariffs on China’s Ten Top Export Items to the UNITED STATES

China’s ten top export items to the United States	United States import tariff (no MFN status)	United States import tariff (if having MFN status)
White cotton shirts	17%	9.3%
Tin and other alloys	No tariff	No tariff
Feather	20%	15%
Fireworks	12 cents/pound	No tariff
Antiques	No tariff	No tariff
Down and down products	20%	15%
White cotton sheets	13.5%	7.5%
Bamboo products	50%	25%
Pig mane	3 cents/pound	0.75 cent/pound
Nuts with shells	2 cents/pound	No tariff

Source: Far East Economic Review, May 14, 1979

China’s ten top export items to the United States belonged to the categories of agricultural products, chemical products and raw materials and textiles specified in Table IV. These three categories of goods together accounted for 88%, 84% and 85% of the total trade volume between the two countries in 1975, 1976 and 1977 respectively. Simple calculation led to the conclusion that China lost a large portion of profits in its export to the United States owing to the high tariffs imposed on Chinese goods. Moreover, the consequent high price of Chinese goods greatly limited the increase of China’s export and made it difficult for China to get more foreign exchange from trading with the United States. In addition, the United States continued with its trade control on strategic products and other advanced equipments and technologies, which China needed most. For example, America’s export of electronic products lingered at a very low level of less than $4 million in most of the 1970s. However, when the U.S. and China signed the trade agreement in 1979, China’s import of electronic products jumped from $18.8 million in 1978 to $78 million in 1979 and $106.6 million in 1980 as shown in Table II.

Table IV: Composition of U.S. Import from China (million dollars)

Year	Total volume	Agricultural products		Energy		Chemical products and raw materials		Textile				Electronic products		Other products	
								Fabric		Ready-made clothes					
		Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
1971	4.7	3.5	74	0	0	0.7	14	0.2	5	0.1	2	0	0	0.2	6
1972	32.2	12.4	38	0	0	9.5	30	3.3	10	1.6	5	0	0	5.4	17
1973	63.5	15.3	24	0.4	1	25.1	39	9.9	16	2.6	4	0	0	10.2	16
1974	114.4	26.6	23	0.1	0	38.7	34	28.2	25	6.2	5	0	0	14.6	13
1975	157.9	25.7	16	0	0	71.5	45	32.8	21	10.2	6	0	0	17.7	11
1976	201.5	51.3	25	0	0	52.3	26	46.8	23	20.8	10	0	0	30.3	15
1977	200.7	57.0	28	0.9	0	47.5	24	35.1	17	30.3	15	0	0	29.9	15
1978	324.0	69.1	21	0	0	79.3	24	62.8	19	68.3	21	0.2	0	44.3	14
1979	592.3	86.6	15	96.4	16	111.3	19	64.5	11	171.8	29	0.4	0	61.3	10
1980	1058.3	115.7	11	134.7	13	248.7	23	141.1	13	283.5	27	5.1	1	132.5	13

Source: United States Census Bureau Statistics

Another reason for China's reduced import from the United States was the diversified import sources for China. After Nixon's visit to China, more than 20 countries recognized the PRC and established diplomatic relations with China in one year, including Japan, Germany, Britain, the Netherlands and other major industrial countries. Newly established diplomatic relations brought new opportunities for import. Take Japan for example. After China and Japan established diplomatic relationship in 1972, the bilateral trade volume continued to increase. The Trade, Navigation and Fishing Agreement between China and Japan in 1974 further pushed the bilateral trade relations. When U.S.-China trade fell drastically from 1975 to 1977, China-Japan trade escalated as shown in Table V.

Table V: China-Japan Trade in the 1970s (100 million dollars)

Year	1972	1973	1974	1975	1976	1977
China's export to Japan	4.1	8.4	11.4	14.0	12.2	13.6
China's import from Japan	6.3	11.1	19.8	23.9	18.2	21.1
Trade volume	10.4	19.5	31.3	38.0	30.4	34.7

Source: the PRC Ministry of Commerce Statistics

Rebound and Welcome Growth

The last two years of the 1970s were regarded as one of the most important turning points in Chinese history. The arrest of the members of the "Gang of Four" in October 1976 was a harbinger of the coming of a new era. The nationwide debate on "Practice is the only criteria in testing truth" laid an ideological and theoretical foundation for the switch of national focus. The Third Plenary Session of the Central Committee of the 11th National Congress of the Chinese Communist Party held in December 1978 made the crucial decision to shift China's strategic focus from class struggle to economic construction and to initiate the policy of reform and opening to the outside world. It was just a beginning but a most welcome beginning. Meanwhile, reform-minded leader Deng Xiaoping came to the fore and became the core of China's leadership in the following two decades. The new leadership had correct and realistic analysis of China's economic situation and knew what a miserable state China's economy was in. Deng Xiaoping looked to the developed world for tips of economic development. The Chinese government sent several delegations on research tours to Japan, Hong Kong and Macau and European countries in 1978. The tour to Japan came up with the following lessons about the rapid development of Japanese economy in the last two decades: “firstly, introduce boldly new technologies from foreign countries to equip itself with advanced things in the world…; secondly, make full use of foreign capital.”[4] The tour to Hong Kong and Macau concluded that the main reasons for their rapid development were “adequate capital resources and cheap labor” and made suggestions about closer economic connections with Hong Kong and Macau. The tour to Europe also came up with a few conclusions:

> “firstly, the keys to the rapid economic development and national economic modernization of Europe after WWII were highly developed science and technology, centralized capital and socialized production;…thirdly, the modernization in Europe was an industrial revolution and China needed such an industrial revolution. Compensation trade, prolonged payment and ‘buyer credits’ should be adopted to introduce advanced technologies and equipments to China. This necessitated the reform of the economic management system.”[5]

These tours further made the Chinese government see the gap between China and developed countries and regions. China was lagging behind in the development of science and technology and could not provide industry with much needed advanced equipments. In addition to the lessons from the distance, China was also inspired by some rewards at home. By 1978, the “Four-Three Plan” had completed. Those advanced equipments imported demonstrated their value in an encouraging way. One example was China’s decreased dependence on foreign chemical fertilizer. The high priority should be to import technology, equipments and even production lines from the developed world. At the national planning conference in December 1978, the State Council specified the famous three shifts:

> “To shift attention to production and technological reform; in management system and methods shift to the scientific way of managing according to economic rules; to shift from close-door or semi-close-door policy to the policy of actively introducing advanced foreign technologies, making use of foreign capital and entering the international market boldly.”[6]

Introducing advanced foreign technologies, making use of foreign capital and entering the international market boldly sped up the development of China’s trade relations with the world. As the creator and owner of the most advanced technologies and equipments, “the U.S. became a key model for China to learn from, the country from which we shall introduce advanced technologies and management experience and the most important target for opening up.”[7]

During these two years, the U.S. made a breakthrough movement in the normalization drive. The reform and opening up drive in China convinced the U.S. government that it was high time to speed up normalization so as not to miss the opportunities in China’s reform and opening campaign. In addition, the Carter Administration’s efforts to boom the economy were thwarted by the repeated hikes in oil prices when the second energy crisis hit the U.S. hard in 1978. When Carter’s efforts to solve domestic problems failed, to speed up normalization of U.S.-China relations became something that the Carter Administration could claim credit for. The establishment of diplomatic relations at ambassadorial level in 1979 opened the gate for further trade development. Shortly after normalization in 1979, the U.S. and

---

[4] 邢茹玉，陈东林：《新中国对外开放基本国策的开创》，《当代中国史研究》2006年第2期

[5] *Ibid*

[6]宫力著：《邓小平与美国》，北京，中共党史出版社，2004年版，第205页

[7]*Ibid*: p.193

China signed their first trade agreement and finally removed all the major obstacles to the development of U.S.-China trade. MFN status made Chinese products more competitive and China was finally able to compete with other exporters on the U.S. market on an equal footing. As shown in Table IV, China's export to the U.S. was $324 million in 1978, almost doubled to reach $592.3 million in 1979 and almost doubled again to come up to $1058.3 million in 1980. American export to China also benefited a lot from reduced U.S. trade control. Table II showed an increase of total U.S.-China trade volume by more than 9 times from $171.3 million in 1977 to $1,724 million in 1979. Among all the major U.S. export items, electronic products were exported at a rate faster than any other single export item. Compared with that of 1977, American export of electronic products to China increased by more than 20 times in 1979. The direct reason behind the rapid development of electronic product export was the lifting of U.S. trade control over this category of products to China. In fact, if the figures of 1980, when normalization and the trade agreement fully exhibited their great influence on U.S.-China trade relations, were used for comparison, the conclusion would be even more encouraging as shown in Table II and Table IV.

Hong Kong's Role

In most of the 1970s, U.S.-China trade volume was not large in absolute terms. Limited trade volume limited the role that Hong Kong was capable of playing in bilateral trade between China and the U.S. As seen in Table VI, Hong Kong's role as a transshipment harbor, which was where Hong Kong's importance lay in future years, was not fully actualized until 1979. Hong Kong intervened into U.S.-China trade mostly in an indirect way. However, indirectness did not undermine Hong Kong's significance in the development of U.S.-China trade relations.

Table VI: Hong Kong's Trade with U.S. and China in the 1970s (million dollars)

		1971	1972	1973	1974	1975	1976	1977	1978	1979
Source of import	U.S.	2,535	2,595	3,702	4,621	3,961	5,309	6,093	7,519	10,365
	China	3,330	3,847	5,634	5,991	6,805	7,761	8,082	10,550	15,130
Destination of export	U.S.	5,708	6,125	6,825	7.422	7.334	11,236	13,552	15,125	18,797
	Tenth largest partner*	Sweden	Taiwan	S&L**	S&L	S&L	Nigeria	S&L	France	S&L
		195	233	266	357	410	311	572	575	949
Destination of re-export	U.S.	303	364	461	514	555	855	883	1,232	1,995
	China	43	82	222	197	-	-	175	214	1,315

Source: Hong Kong Annual Report, from 1971 to 1979

*China was never a top ten export destination for Hong Kong in the 1970s.

** S & L stands for Switzerland and Liechtenstein

Firstly, in the 1970s, China's export was not strong because of poor performance of agricultural production and backward industrial production. China was having major trade deficits with most trading partners. As shown in Table I, except for a minor trade surplus in 1971, 1976 and 1977, China's trade deficits with the U.S. kept at a high level. Table V showed a constant trade deficit for China in China-Japan trade. China-Europe trade was the same. Weak export combined with large trade deficits drained China's limited foreign exchange reservation and thus prevented China from expanding its import plans.

During the 1970s, Hong Kong was the major source of trade surplus and foreign exchange for China. As shown in Table VI, China showed a dynamic export to Hong Kong, ranking as the second largest source of import for Hong Kong and enjoying a double digit increase rate throughout the 1970s. However, China was never a major export partner for Hong Kong and ranked even after Nigeria in 1976. Statistics showed that China's trade surplus with Hong Kong accounted for 30~40% of China's total income of foreign exchange as shown in Table VII.

Table VII: Percentage of Foreign Exchange from Hong Kong in China's Total Income of Foreign Exchange in the 1970s

Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
%	40.5	40.4	38.3	39.6	29.4	30.2	33.9	32.9	34.7	33.2	33.9

Source: The Economic System of Hong Kong, ed. By H.C.Y. Ho & L.C. Chau Asia Research Service HK. 1988

Secondly, in the 1970s, China's transportation system, especially harbor facilities, was obsolete. There were no international level harbors along the coast of China, except Hong Kong. As a result, Hong Kong became an important transshipment harbor for China. Take China's trade with the U.S. as example. Table VIII shows the total volume of Hong Kong's transshipment between the U.S. and China during the 1970s. Hong Kong's transshipment accounted for around 9~10% of the total U.S.-China trade volume. Moreover, against the overall ups and downs of U.S.-China trade, Hong Kong's transshipment was comparatively stable.

Table VIII: Hong Kong's Transshipment between the U.S. and China (million HK dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Transshipment of Chinese products to the U.S.	1.75	13.44	64.91	89.56	93.13	139	245.72	252.33	372.99	735.30
Transshipment of U.S. products to China	0.05	0.01	1.09	12.71	26	19.12	28.78	27.45	31.99	130.7
Total transshipment	1.8	13.45	66	102.27	119.13	158.12	274.5	279.78	404.98	866
China's surplus	1.7	13.43	63.82	76.84	67.13	119.88	216.94	214.88	341	604.6

Source: Hong Kong Annual Report, from 1971 to 1979

As Table VIII shows, the value of the transshipment of Chinese products to the U.S. is much larger than that of U.S. products to China; as a result, Hong Kong's role as the transshipment harbor also contributed to the increased China's foreign exchange income. The same applied to Hong Kong's transshipment between China and other countries. Table IX shows China's foreign exchange income from the transshipment in Hong Kong and its percentage in China's total foreign exchange income.

Table IX: Percentage of China's Foreign Exchange Income from the Transshipment in Hong Kong from 1972 to 1980 (million HK dollars)

Year	1972	1973	1974	1975	1976	1977	1978	1979	1980
China's foreign exchange income from the transshipment in Hong Kong	983	1589	1582	1743	2404	2492	3659	5663	8393

Percentage of this income in China's total foreign exchange income	25.6	22.6	19.1	20.1	22.2	22.4	23.2	21.7	22.7

Source: 1. The Economic System of Hong Kong, ed. by H.C.Y. Ho & L.C. Chau Asia Research Service HK. 1988

2. The Economy of Hong Kong, by Chen Tong Yung, Far East Publications, HK, 1982

The excellent performance of Chinese products in Hong Kong made up for China's poor export performance in other places like the U.S. and supplied China with large number of exchangeable foreign currencies, thus enabling China's import of advanced equipments and technologies.

Thirdly, Hong Kong also served as the operation and settling center for China's trade relations with the world. Since in most of the 1970s the U.S. and China did not have diplomatic relations, this role played by Hong Kong was particularly important. According to statistics, by the end of 1981, more than 1,547 foreign companies registered in Hong Kong, 361 of which were American companies. 193 foreign companies had their headquarters in Hong Kong, about half of which were American companies. These companies, closest to China, were responsible for the direct handling of U.S.-China trade. As mentioned earlier, the Department of States permitted overseas branches of American companies to sell non-strategic products to China in 1969. These overseas branches of American companies referred mostly to those stationed in Hong Kong. Moreover, since foreign banks were allowed to operate in Hong Kong and handle HK dollar business, China was able to use its HK dollars to settle trade payment directly.

While American companies were using Hong Kong as a base near China, Chinese companies were also active in Hong Kong to be closer to the world. The Hong Kong Branch of Bank of China was established in 1917. After more than 50 years of development, it became a very active bank in Hong Kong. Its net profit increased from $.8.7 million in 1973, to $11,6 million in 1974 and $35 million in 1975. Its good performance made it a reliable bank in Hong Kong. Other Chinese companies such as China Resources and China Merchants Group all established themselves in Hong Kong. An article from the May 9, 1973 issue of Far Eastern Economic Review read, "13 banks and 3 insurance companies (in Hong Kong) controlled by China created foreign exchange income for China by making a profits…China made over $100 million in Hong Kong annually."

In addition to serving as the site for the development of American and Chinese companies so that the two countries could conduct business in Hong Kong face-to-face, Hong Kong also facilitated U.S.-China trade through the business of native Hong Kong companies and businessmen. These companies, with their highly internationalized background, also played a very important role in the connection between the U.S. and China. For example, China designated 7 third-country banks in America to be its commission banks, 2 of which were Hong Kong banks—HSBC and Standard Chartered. Hong Kong entrepreneurs kept a close cooperative relationship with the Chinese government and played a very active role in facilitating U.S.-China trade. For example, Fok Ying Tung served as the chief commissioner of Chinese sea sand and cement in the world market. Pao Yue-Kong, then the world shipping king and the largest share holder of the Wharf Holdings Ltd., made use of his personal connections with the U.S. and world business circle and transshipped most of Chinese products to the world in his ships through Hong Kong harbors controlled by the Wharf Holdings Ltd.

In the 1970s, Hong Kong had only started as an important bridge in U.S.-China trade. That was only because U.S.-China trade itself had only recently started. However, with the development of U.S.-China relationship, Hong Kong was to become more and more important in U.S.-China trade. As shown in Table VIII, compared with 1971, Hong Kong transshipped over 480 times more goods between the U.S. and China in 1979. By the year 1991, the transshipment of Chinese products to the U.S. reached ¥103.955 trillion and the transshipment of U.S. products to China reached ¥13.302 trillion. Regardless of the inflation factor, the two-way transshipment of goods by way of Hong Kong increased by 122 times and 88 times respectively as compared to that of 1979. The transshipment of Chinese products to other countries by way of Hong Kong further increased to 808.37 trillion HK dollars in 2001. The increased significance of Hong Kong in U.S.-China trade has been further proved today.

Conclusion

This paper confines itself to the time period of the 1970s, the decade for normalization of U.S.-China relations. It spares itself the burden of investigating into the early 1980s when U.S.-China trade was making essential progress.

Although the 1970s was not a particularly good time for either China or the U.S., both countries bore in mind their mutual needs and conquered all the obstacles and difficulties. Trade relations, after all the ups and downs, took off by the end of the 1970s and reached an unexpected level in the years to come. In addition to the efforts of both countries to sustain the fragile connection, Hong Kong played an ever important role in the trade relations between the U.S. and China. Today, U.S.-China trade has finally stepped out of the shadow of political domination and become an independent and decisive factor in U.S.-China relations. At the same time, Hong Kong plays a more and more important role in U.S.-China trade as reflected in the dispute over how to calculate U.S. trade deficits with China taking into account the transshipment by way of Hong Kong. The United States and China managed to overcome all the unfavorable situations in the 1970 and moved ahead in bilateral relations. There is no doubt that the two countries will settle their current disputes over trade deficits in a much friendlier atmosphere in the coming years. Hong Kong will also continue to serve as an important link in the U.S.-China trade chain and contribute to the healthy development of U.S.-China trade. Ultimately, the United States, China and Hong Kong can all benefit.

Bibliography:

Beazer, William F., The Commercial Future of Hong Kong, Westport: Praeger Publishers, 1978

Boyer, Paul S., and others, *The Enduring Vision: A History of the American People*. concise 2nd ed. Lexington, Mass: D.C. Heath and Company, 1995.

Burr, William, ed. *The Kissinger Transcripts*. New Yorker: The New Press, 1998.

Cheng Tong Yung, *The Economy of Hong Kong*, HK: Far East Publication HK, 1982

Congress of the United States: *China: A Reassessment of the Economy: A Compendium of Papers Submitted to the Joint Economic Committee*, Washington: U.S. Government Printing Office, 1978

Eckstein, Alexander, *China's Economic Revolution*, Cambridge: Cambridge University Press, 1977

Grantham, Dewry W., *Recent America: The United States Since 1945*, 2nd ed. Wheeling: Harlan Davidson, Inc. 1998

Howe, Christopher, *China's Economy: A Basic Guide*, New York: Basic Books, 1978

Kwan Ha Yim, ed. *China Under Deng*, New York: Facts on File Inc. 1991

Liao, Kuang-Sheng, ed. *Modernization and Diplomacy of China*, HK: The Chinese University of Hong Kong, 1981

Wood, A.H. & M.S. Lau, *Economic Affairs for Hong Kong*, HK: Chiu Ming Publishing Co. Ltd, 1979

Woronoff, Jon, *Hong Kong: Capitalist Paradise*, HK: Heinemann Asia, 1980

Youngsen, A.J., *Hong Kong Economic Growth and Policy*, Hong Kong: HK Oxford University Press, 1982