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CENTRAL INTELLIGENCE AGENCY
NATIONAL FOREIGN ASSESSMENT CENTER

1 December 1981

MEMORANDUM

CHINA: DECENTRALIZATION AND THE NEW FOREIGN
TRADE LEADERSHIP [REDACTED]

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The Chinese Ministry of Foreign Trade (MFT) appears to have lost its most recent battle for control of trade policy and will face additional difficulties as a result of the renewed push toward decentralization of foreign trade. The MFT has been forced to relinquish its overall trade coordination and policy role to Vice Premier Gu Mu and his State Import Export Commission (SIEC). Because China's foreign trade sector is still being restructured, the confusion associated with decentralization almost certainly will continue. [REDACTED]

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Beijing has vacillated on the extent of trade decentralization over the past two years. The decentralization program, initiated in mid-1979, was designed to improve the efficiency of the foreign trade system by permitting the producers and end-users to serve as decisionmakers. As an incentive to increase China's foreign exchange earnings, Beijing authorized certain provinces and production ministries to play a direct role in sales promotion and to retain a portion of their export earnings. By early 1981, the foreign trade sector was in disarray and Beijing began reimposing tighter central controls as part of its expanded economic readjustment program. By July, however, the MFT's inability to control defiant provinces, combined with a continuing shortage of foreign exchange, prompted Beijing to reverse course again and begin an even more thorough decentralization. [REDACTED]

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The ascendancy of Gu Mu and the SIEC to a predominant role in China's foreign trade sector was precipitated by the recent retirement of Foreign Trade Minister Li Qiang. Li, who had held

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the post since 1973, had strongly resisted the decentralization program, arguing that local officials lacked the experience and expertise to succeed in highly competitive world markets. Although Li was eventually forced by the leadership to tone down his opposition to the initial decentralization, his resistance to the program was the primary cause for his removal. In March, Li was appointed an advisor to the State Council--a method often used to retire older cadres--and in September Beijing announced the appointment of Zheng Tuobin as Foreign Trade Minister. 25X1 Although he has served in various trade positions since 1953, little is known about Zheng's policy views. [redacted]

Zheng's appointment may have been part of compromise package designed to satisfy Gu Mu's ambitions. Gu's advocacy of rapid decentralization of foreign trade was endorsed by the leadership, much to the distress of the MFT, which advocated a more gradual approach. More importantly, the State Council granted the SIEC a greatly expanded role in coordinating China's overall trade policy. [redacted] 25X1

The New Foreign Trade Hierarchy

Although the outlines of China's new foreign trade bureaucracy still are uncertain it seems clear that the MFT is being forced to relinquish portions of its authority to both the SIEC and to trade entities in the provinces and the production ministries. [redacted] the SIEC is to become 25X1 a sort of super-agency that will have policy supervision over most, if not all, of China's foreign-trade related state agencies, such as the MFT, the Bank of China and the Ministry of Economic Relations with Foreign Countries.* Gu Mu told a press conference in September that the SIEC's new responsibilities would be conducted on behalf of the State Council. An official of the Ministry of Metallurgical Industry recently stated that decisions concerning the division of responsibilities between the MFT and his ministry's foreign trade component were now being adjudicated by the SIEC. The SIEC also is chairing a new association of producer groups that will coordinate each industry's foreign trade operations. With a staff of only 300, the SIEC is not in a position to involve itself in the day-to-day mechanics of foreign trade. The State Council may be trying to create a system under which lower bodies can resolve mundane or technical issues, allowing the leadership to concentrate on broader policy questions. [redacted] 25X1

How much authority the SIEC will have over state-to-state economic relations is still unclear. In September, Foreign Trade

* When set up in 1979, the SIEC was initially charged with domestically allocating the \$26 billion in foreign loans China arranged to pay for imports. Later it was charged with approving large scale trade or investment deals made by provinces or production ministries. [redacted] 25X1

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Minister Zheng Tuobin chaired China's delegation at the Italian-Chinese economic commission meetings. Yet Premier Zhao Ziyang recently designated the SIEC as Canada's counterpart organization for technical assistance programs, rather than the Ministry for Economic Relations with Foreign Countries as the Canadians had expected. SIEC also represented China in negotiations with Japan over the latest Japanese aid program. Moreover, Zheng Tuobin appeared only at the welcoming ceremony and banquet for visiting Venezuelan President Herrera, whereas an SIEC Vice Minister took part in the actual talks with Premier Zhao Ziyang.

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Gu Mu's bureaucratic maneuvering has left the MFT weaker than ever before. The MFT's previous monopoly over trade has been shattered by the aggressive entry of many new trade entities. The State Council has indefinitely postponed a national conference to allocate foreign trade responsibilities primarily because the MFT could not resolve the demands of these new trade units. A meeting with a number of production ministries in October ended inconclusively as MFT's efforts to retain its trade monopoly were rejected by the other ministries. Large-scale trade purchases negotiated by the provinces or the production ministries, however, will continue to require SIEC approval. Unlike the earlier attempt at decentralization, the MFT may not even retain authority over certain key commodities such as petroleum and rare metals. The State Council has authorized China's aviation industry to export titanium, and in September the Petroleum Ministry signed its first oil export contract independent of the MFT.

The reaction of trade officials of provinces and production ministries to the expanded decentralization has ranged from energetic participation to bewilderment. While Beijing has not yet officially granted trade autonomy to many provinces, several have taken advantage of the current disarray and have unilaterally initiated direct trade. On the other hand, Beijing's failure to issue firm guidelines in trade matters has hampered trade in many instances.

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Many of China's trading partners have expressed approval for the decentralization program since it offers them the prospect of dealing directly with local producers or purchasers, negotiating for the best goods at the most favorable price. However some of the MFT's longstanding partners have remained loyal.

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Implications

By empowering the SIEC to coordinate foreign trade, Beijing hopes to avoid the administrative confusion associated with the previous decentralization effort. Unlike the MFT, the SIEC supports decentralization and, because it is not directly involved in conducting trade, it presumably can impartially adjudicate and oversee the expansion of this important sector of the Chinese economy. [REDACTED] of 25X1

Nevertheless, by again decentralizing its foreign trade, Beijing will face many of the same problems that caused it to temporarily retreat from the program during the first half of this year. Inexperienced local and production ministry trade officials may again engage in cutthroat competition that will wipe out profits. Similarly, new trading entities may again overbuy, duplicate their purchases, or stress non-essential imports. The MFT's fears that these inexperienced representatives will damage China's reputation by making unfulfillable contracts may well be realized. The new trading structure is also likely to generate antagonism among the remote and smaller provinces that are denied the economic benefits of increased trade autonomy. Moreover, it is unclear whether the MFT or the Bank of China will be willing to bail out any new trading entities that run into trouble. The MFT almost certainly is demoralized over its diminished prerogatives and will continue maneuvers to protect its remaining turf and regain its lost authority. Finally, the SIEC's ability to successfully oversee the decentralization remains an open question. If decentralization gets out of hand, Beijing will find it even more difficult to tighten control over foreign trade given the aggressive nature of many of the new trading entities. [REDACTED] 25X1

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SUBJECT: China: Decentralization and the New Foreign Trade Leadership [Redacted]

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