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China's Electronics Industry: The Boom Continues

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Summary

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Over the next five years, growth in China's domestic electronics industry will continue to outpace gains projected for most other sectors of the economy, although it may be somewhat slower than during the 1981-85 period. Imports of computers, scientific instruments, electronic components, and automated production machinery will continue to increase, but China will sharply curtail its purchases of electronic consumer goods as it moves to protect its infant domestic industry.

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Outlook for the Domestic Industry

China's electronics industry is among the country's fastest growing industrial sectors, with the value of output growing at a nominal average annual rate of 23.3 percent from 1981 to 1985, according to Chinese press reports, compared with 12.6 percent for overall industrial production. Strong consumer demand for televisions, radios, cassette recorders and other home electronics led to heavy investment in the

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EA M 86-20031

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sector--by central, provincial and municipal Chinese entities as well as by foreign firms. The implementation of industrial and wage reforms also contributed to the surge in output. [Redacted]

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Although leaders have set more modest growth targets for the Seventh Five Year Plan (1985-90), the electronics sector will continue to develop at a faster pace than other sectors of the economy, according to China's Minister of Electronics (MEI), Li Tieying.¹ The Ministry plans 16.5 percent annual growth, with target output in 1990 valued at \$60 billion. Production priorities will be integrated circuits, consumer electronics, computers, and communications equipment. [Redacted]

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The Ministry also plans to improve the quality, reliability, and sophistication of its products. By 1990, MEI hopes to bring 70 percent of its major electronic goods up to the international standards of the early 1980s, according to Minister Li. Over the next few years, China will need to introduce more scientific instrumentation to test output and ensure better quality control. China's ability to produce the required instrumentation is extremely limited, however, and imports will be crucial. [Redacted]

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Growth in Electronics Imports to Slow

Imports, which had grown 35 percent annually from 1981 to 1985, will continue to increase, but at a slower pace (see figure 1). We believe China will import about \$15 billion worth of electronics equipment over the 1986-90 period, up from \$6.8 billion over the last five years. Several factors account for our moderately optimistic assessment. We believe China will need to continue to import automated production machinery, instrumentation, and electronic components in order to sustain its planned growth in domestic electronics output. Between 1981 and 1985, for example, imports of electronics grew 50 percent faster than domestic electronics output. We believe China's imports of nonconsumer electronics will continue to grow slightly faster than the domestic industry, averaging at least 20 percent per year. [Redacted]

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Current measures to curb foreign exchange expenditures and to recentralize foreign trade authority will curtail purchases of consumer electronics and personal computers, however, and our estimate assumes China's purchases of foreign consumer electronics will drop roughly to their 1983 levels, remaining constant through 1990. We do not believe these cutbacks will affect imports of nonconsumer electronics, however. Even during previous periods of economic retrenchment, when Beijing has centralized control over its foreign trade apparatus and slashed imports as it did from 1981 through 1983, imports of nonconsumer electronics continued to grow. We believe Beijing will

¹ China's Ministry of Electronics Industry is the country's largest producer of electronics goods, overseeing production at some 2,400 enterprises, 55 institutes, and four research academies. The Ministry also controls a large share of China's electronics imports, through its trading arms, China Electronics Import and Export Corporation, and China National Electronic Devices Import-Export Corporation. Minister Li assumed his post last year, when his predecessor, Jiang Zemin, was appointed Mayor of Shanghai. [Redacted]

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continue to authorize purchases of the larger-ticket items needed to modernize factories, facilitate economic planning, or strengthen military research or command and control. [REDACTED]

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US firms may increase their sales of electronics to China even more dramatically than exporters from other countries over the next five years. The United States has an increasing share of China's market for scientific instruments and computers--especially mainframes--and sales should remain strong in both areas (see figure 2). As Beijing implements measures that link purchases to technology transfer, US exporters may further increase their share of these markets, particularly because they are generally more willing to engage in cooperative production agreements than their Japanese counterparts. Moreover, Chinese restrictions on imports of televisions, radios, tape recorders, and other consumer items will primarily affect Japan--more than half of Japan's total electronics exports to China fall in the restricted categories. US firms are less vulnerable, accounting for less than one percent of China's imports of consumer electronics; Japan accounts for 60 percent. [REDACTED]

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Typescript "China's Electronics Industry: The Boom Continues [Redacted]"

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Distribution:

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Figure 1:

Exports of Electronics to China, 1980-85

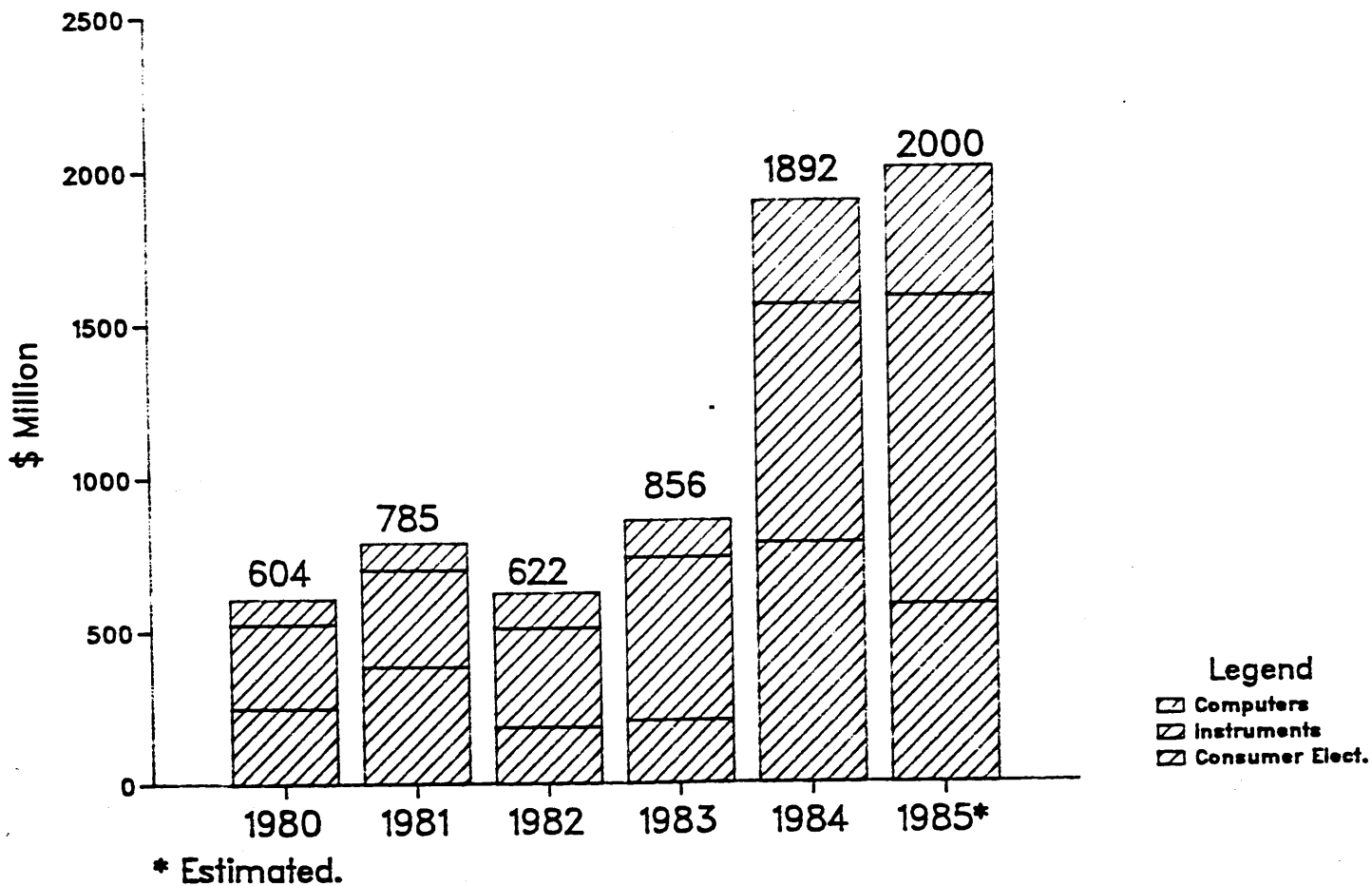


Figure 2:

China: Sources of Electronics Imports, 1984

