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**INTELLIGENCE
REPORT**

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CHINA: Record Trade Deficit

CHINE: Déficit commercial record

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CE DOCUMENT PEUT FAIRE L'OBJET D'UNE EXCEPTION OBLIGATOIRE EN VERTU DES LOIS SUR L'ACCÈS À L'INFORMATION ET SUR LA PROTECTION DES RENSEIGNEMENTS PERSONNELS. AUCUNE DÉCISION RELATIVE À UNE REQUÊTE DE COMMUNICATION NE POURRA ÊTRE PRISE SANS LA CONSULTATION PRÉALABLE DU SECRÉTAIRE ADMINISTRATIF DU COMITÉ CONSULTATIF DES RENSEIGNEMENTS.

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CHINE: Déficit commercial record

Résumé

1. La Chine enregistrera un déficit commercial record en 1985, après quatre ans d'excédents. Le taux de croissance des importations a grimpé de plus de 60 pour 100 tandis que celui des exportations a fléchi, dépassant à peine 2 pour 100, d'où le déficit commercial officiel de 4,4 milliards de dollars É.-U. enregistré au cours des neuf premiers mois de la présente année. En conséquence, les Chinois imposent des restrictions sur les importations de biens de consommation et d'autres produits non essentiels. Ces mesures devraient se traduire par une amélioration de la conjoncture commerciale l'an prochain et permettre aux Chinois d'importer des produits de première nécessité pour des projets prioritaires sans grever les réserves en devises. Le Canada pourrait souffrir des retards apportés à l'approbation des contrats et des restrictions imposées sur les exportations non essentielles. Les perspectives devraient, toutefois, rester encourageantes au cours des prochaines années en ce qui concerne les exportations de matériel et de technologie de pointe, surtout dans les secteurs de l'énergie, des transports et des télécommunications.

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Report

2. China will experience a record trade deficit in 1985, following four years of trade surpluses. China's trade balance turned negative in the last quarter of 1984 and continued to deteriorate in 1985, with the 1985 trade deficit officially reaching US \$ 4.4 billion by the end of the third quarter, according to foreign trade figures. This trade deficit could be slightly overstated because China's statistical methods differ from Western practices. While the trade situation is beginning to improve, the trade deficit for all of 1985 could even be as high as US \$ 7 to US \$ 8 billion. The previous record deficit in 1980 is estimated at US \$ 3.5 billion. (CONFIDENTIAL)

3. While the trade deficit is largely the result of a surge in imports in the first quarter of 1985, imports continued to outpace exports throughout the first three quarters of the year, growing by over 60 percent by the end of September to reach US \$ 22.5 billion. Much of this increase stemmed from the authorities' decision to decentralize control over foreign exchange in the last quarter of 1984 and the first quarter of 1985. During this period the deteriorating trade situation was largely responsible for a fall in foreign exchange reserves from US \$ 16.7 billion to US \$ 11.3 billion. Rising per capita income resulting from ongoing economic reforms led to a strong demand for imported consumer goods. Demand remained strong for foreign inputs for modernization projects. The only significant area in which imports decreased was in the agricultural sector because of recent good cotton and grain harvests. (CONFIDENTIAL)

4. Slower growth in exports also contributed to the trade deficit. While exports grew strongly by 10 percent in 1984, foreign trade figures indicate that they increased by only 2.3 percent in the first nine months of 1985 to US \$ 18.1 billion. Growth in revenues from China's major export, oil, was dampened by declining international oil prices. China was also adversely affected by growing

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protectionism, particularly in the USA market. Clothing exports fell by 36 percent while cotton fibre exports declined by 17 percent in the first six months of 1985 in contrast to strong growth in 1984. While exports of agricultural products, such as corn and cotton, performed well, the general slowdown in the world economy and the concomitant lower international demand contributed to slower growth of many manufactures. (CONFIDENTIAL)

5. As export revenues are not expected to increase significantly in the near future, the Chinese have imposed restraints on imports of consumer goods and other non-essentials. Control over foreign exchange reserves has been recentralized and import regulatory taxes have been increased on a number of consumer goods. A strict ban on most vehicle imports is in force, mainly to stem the flood of Japanese cars on the domestic market. These measures are expected to improve the trade situation next year and they should allow the Chinese to continue importing equipment and technology for priority projects without significantly decreasing foreign exchange reserves. (CONFIDENTIAL)

Implications for Canada-China Trade

6. Canada will be less affected by import restraints than countries such as Japan and Hong Kong that have consumer goods as a high proportion of their exports. Nonetheless, some of Canada's exports to China, such as motor vehicles, will be cut off, while others will face higher customs duties. Canadian exporters could also suffer from longer lead times in contract approval as the result of the recentralization of control over technology deals. Under the current restraints, however, the majority of Canada's exports to China should remain outside the restricted categories. (CONFIDENTIAL)

7. As the result of China's continuing strong demand for imports for modernization projects, Canada's exports to China should increase this year after declining by close to 20 percent in 1984. In the first three quarters of this

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year, exports grew by close to 15 percent to reach over Canadian \$962 million compared to the same period last year. While exports of agricultural products and raw materials fell, this was offset by a substantial increase in sales of fabricated materials and end products, which grew by 57.6 percent and 472 percent respectively. Since CoCom, the West's co-ordinating committee which approves exports to the East, recently eased restrictions on 27 product categories, prospects are good for continued expansion of high technology exports, particularly in the computer and telecommunications fields. In addition, demand should remain strong for inputs in the priority areas of energy and transportation. Increasing sales in these areas would help to offset the recent decline in Canada's grain sales. China has not renewed its long term grain contract with Canada because of recent good harvests. (CONFIDENTIAL)

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