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ACCOUNTING FOR CHINESE TRADE: SOME NATIONAL AND REGIONAL CONSIDERATIONS

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ABSTRACT

China's trade has three features: high incidence of re-exports through Hong Kong, high degree of trade related to foreign investment, and large amount of "illegal" trade.

Re-exports occur when imports to Hong Kong are consigned to a buyer in Hong Kong, who adds a markup, and exports the goods elsewhere without fundamentally changing the goods. Using U.S. data and accounting for re-exports, the U.S.-China trade balance has to be lowered by 35 percent.

Foreign investments in China accounted for 45 percent of China's exports. Foreign investments include foreign direct investment (FDI) and foreign subcontracting.

"Illegal" trade between China and Taiwan has been induced by Taiwan's "no direct trade" policy. Illegal trade such as smuggling and tariff evasion also affect China's trade with her other trading partners.

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1. Introduction

In this paper I examine various conceptual and data issues related to trade and investment in China. This topic is interesting because China is the most dynamic and the fastest growing economy in the world. Despite cycles of inflations and contractions, real GDP in China has grown at almost 10% annually over the period 1979-1992. For the coastal provinces, from Guangdong in the south up through Fujian, Jiangsu, Zhejiang to Shandong in the north, the annual growth rate averaged over 12% for the same period (Ho 1993). This economic performance has led many to predict that China will one day be the next economic superpower (The Economist 1992). For example, Larry Summers (1992) once extrapolated that, if the growth differential between China and the United States during the 1980s persists, China could surpass the United States to become the largest economy in the world in eleven years. He further pointed out that if the per capita income of China reached that of Taiwan, China's GDP would exceed that of all OECD countries. According to estimates by the IMF (1993) based on purchasing power parity exchange rates, China's GDP is third in the world, behind only the United States and Japan. Some (The Economist 1992) argue that China's economic performance since the economic reform era has brought about one of the biggest improvements in human welfare anywhere at any time.[1]

Since December 1978, when the history-making third plenary session of the eleventh Central Committee of the Chinese Communist Party decided to abandon the Stalinist strategy for growth and opted for a program of open-door policies and reforms, there has been a tremendous increase in China's foreign trade activities. In the pre-reform era, China had traded relatively little with the outside world, given its size. By 1992, China's total foreign

trade volume ranked eleventh in the world, a jump from thirty-second in 1979. Using China's official statistics, Table 1 shows the changes over time in China's trade.[2]

The money value of China's merchandise exports of US$85 billion in 1992 was more than 8 times the 9.8 US$ billion in 1978. In nominal terms, this means a compound growth rate of 16.8% per year. For imports, the US$80.6 billion in 1992 were more than seven times the US $10.9 billion in 1978. This translates to a nominal growth of 15.4%. This is almost twice as fast as the growth of global trade for the same period. According to the OECD (1993), China is 16th in its share of global exports in 1990, with a share of 1.6% of world exports. But if we add Hong Kong and Taiwan to Mainland China (Greater China), Greater China's rank is fifth, behind only the U.S., Japan, Germany and France.

In addition to the fact that China's economy and trade have been growing very rapidly and the country has become a global player, there are other reasons why I want to look into data concerning China's trade. First, Chinese trade data are often at odds with data of its trading partners. Trade data discrepancies are actually quite common, but the situation with China is particularly striking. In 1992, for example, according to Chinese statistics, exports to the U.S. were $8.6 billion, while imports from the U.S. were $8.9 billion. This translates to a small U.S. surplus of $0.3 billion. But U.S. trade statistics show that imports from China were $25.7 billion and exports were $7.4 billion, resulting in a U.S. trade deficit of $18.3 billion. While from an economic standpoint, bilateral trade imbalance is not generally a cause for economic concern, political factors often cause trade imbalances to fuel trade frictions. Trade data discrepancies between China and her trading partners heighten these trade tensions.

A significant part of the discrepancy in trade data related to China is due to Chinese trade with and via Hong Kong, its small but prosperous southern neighbor. According to

China's Custom Statistics, in 1992, 44% of China's exports went to Hong Kong, and 26% of China's imports came from Hong Kong. Using these figures, Hong Kong is China's largest trading partner.

Because of its strategic location, its modern facilities in banking, finance, insurance, transportation and other services, and the fact that there is a sound legal framework in place, Hong Kong is China's main gateway to the West, and vice versa. Much of Hong Kong's role in China's trade is to act as a middleman. This means that a lot of trade involving Hong Kong is entreport trade: re-export and transshipment. Even after June 30, 1997, when Hong Kong will become officially a part of China, Hong Kong will still remain a separate custom territory and a separate member of GATT (more accurately the World Trade Organization, WTO), according to the 1984 Sino-British Joint Declaration and also according to the promise that China had made to GATT. In other words, the problems with China's trade data because of a separate Hong Kong are not likely to go away in the near future.

Until very recently, China's official trade data counted exports to Hong Kong for consumption in Hong Kong and exports to Hong Kong to be re-exported elsewhere both as exports to Hong Kong. Similarly, U.S. goods re-exported via Hong Kong to China are not always counted as U.S. exports to China in U.S. data. We will look at China's trade by taking into account its important re-export character.[3] One example of this complication is that using Chinese data, Hong Kong was the largest exporter to China from 1987 to 1992. But in 1993, when Chinese authorities began to trace the origin of its imports more seriously, Hong Kong dropped to being the fourth largest exporter behind Japan, U.S., and Taiwan (Sung 1994).

Another source of the problem with China's trade statistics is the markup that the Hong Kong middleman adds to re-exports to and from China. This added value is attributed to the exporting country but in fact should be attributed to Hong Kong. Thus, in addition to re-exports, trade data with China should be adjusted by taking the re-export markup into account. Re-exports and re-export markups affect China's trade with all countries and regions, including the three on which we will focus in this paper, Hong Kong, Taiwan and the United States. Furthermore, both re-exports and re-export markups are large, thus significantly affecting Chinese trade data.

Another interesting aspect of China's trade is that a large part of it is fueled by foreign direct investment (FDI), particularly investment by Hong Kong and Taiwan in Guangdong and Fujian. Exports and imports related to investment are not unique to China, but such FDI-related trade is especially important in the Greater China region. In Chinese trade data, both geography and foreign ownership play an important role.

Due to geography and history, China's trade with Taiwan is of special interest. According to 1992 Chinese trade data, Taiwan is China's fourth largest export market, behind Hong Kong, Japan and the United States. Due to cold war politics and historical rivalry between the Chinese Nationalists and the Chinese Communist Party, direct trade was mostly banned between Taiwan and Mainland China. In 1978, Mainland China wanted to reestablish mail, travel and trade. Taiwan initially responded with the continued three no's policy: no contact, no negotiations and no compromise (Kao 1993). However, by 1985, Taiwan no longer interfered with indirect exports, even though indirect imports were still to be subject to control. Taiwan's control of indirect imports would later be relaxed. Taiwan's official policy

is still that all trade and investment have to be carried out indirectly. A substantial portion of trade between Mainland China and Taiwan is indirect re-export trade via Hong Kong.

In addition to re-exports, which also form a large part of China's trade with her other trading partners (e.g. U.S.), China-Taiwan trade is further characterized by forms of direct trade, such as transshipment, that are illegal from the Taiwanese standpoint.[4] Because of this illegal trade, the statistics from Taiwan concerning China-Taiwan trade are also inaccurate. Based on the limited information we have, illegal trade is a large part of trade between Mainland China and Taiwan.

From the U.S. side, trade with China represents both an opportunity and an increasing concern. China can be a large and growing market for American business; at the same time, however, the U.S. is worried about trade barriers in the Chinese market and the export potential of the Chinese. These worries have fueled several trade disputes. Some of the disputes have focused on the different ways that both sides look at trade data. For U.S., re-exports and re-export margins are the dominant factors in complicating the trade data.

In this paper I focus mainly on China's trade with and via Hong Kong, Taiwan and the U.S. There will also be special attention paid to the southern provinces of Guangdong and Fujian, where most of the foreign direct investment from Hong Kong and Taiwan takes place. Hong Kong and Taiwan deserve special attention because of their role in foreign direct investment, re-exports and transshipments. U.S.-China trade is of interest because it highlights how different trade-accounting methods in data can lead to trade problems between important economic powers. In the next section, I examine and update the recent evolution of the Chinese foreign trade regime. In section 3, I look at the role of Hong Kong re-exports in China's trade and discuss re-exports and re-export margins in the context of trade with Hong

Kong, Taiwan and the U.S. In section 4, I cover the importance of FDI-related trade, first using Hong Kong data, then official national Chinese data and lastly some data from the provinces of Guangdong and Fujian. In section 5, I examine transshipments and other forms of illegal trade. There is some indication that smuggling is important for some segment of U.S.-China trade. Concluding remarks are given in the last section.

2. China's Evolving Foreign Trade Regime

Various writers (Sung 1991, Lardy 1992, Ho 1993, Fung 1995a) have previously written on China's trade system. In this section, we update and condense their work. Before 1978, the Ministry of Foreign Trade (MOFT) completely controlled China's foreign trade system. Under a mandatory trade plan, fifteen product-specific national foreign trade corporations (FTCs) operated China's trade. International trade was just an extension of the domestic planning process. The Soviet style of material balances was used to construct the basic economic plan. The plan coordinated the flow of raw materials and intermediate goods among industries. The production of each good was equated to the intermediate and final demands by other major state enterprises. The plan used imports to fill the difference between planned demand and domestic production. Exports needed to pay for imports were then identified, first using goods for which there were excess supplies. The State Planning Commission set preliminary annual and long term targets for broad categories of imports and exports. On the basis of the State Planning Commission's targets, MOFT then prepared more detailed plans and sent these plans to the FTCs.

Based on the foreign trade plan, the FTCs purchased goods from domestic enterprises at fixed prices, sold them abroad, and sent all foreign exchange to the Bank of China, which

was the sole organization allowed to handle foreign exchange. The FTCs bought fixed quantities of foreign goods for domestic use at fixed prices, and paid foreign suppliers with foreign exchange obtained from the Bank of China. World market prices had little impact on the Chinese domestic prices of tradeable goods. Since the Renminbi (the Mainland Chinese currency) was overvalued, the FTCs usually suffered a loss on exports but earned a profit on imports.

In 1979, provincial and municipal governments and some large state enterprises were allowed to establish their own foreign trade enterprises. In March 1982, China's trade regime was further reformed. MOFT, the Import-Export Administration Commission, the Foreign Investment Administration Commission and the Ministry of Foreign Economic Relations were consolidated into the Ministry of Foreign Economic Relations and Trade (MOFERT), with the latter organization supervising the fifteen national FTCs and the local foreign trade bureaus. Recently, MOFERT has been reorganized into the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), and given the responsibility to formulate and implement China's foreign trade policies.

In 1984, the State Council ended the monopoly power of national FTCs and reduced the scope of foreign trade planning. The number of FTCs increased dramatically. In addition to the new national FTCs under the control of central government ministries and other state organizations, almost every provincial and municipal government had its own network of FTCs.

With decentralization, the number of FTCs increased from 15 in 1978 to more than 1,000 by mid-1980s, and to about 6,000 by the latter half of the 1980s. The new FTCs did not have to report to MOFERT. Unfortunately, there were some unscrupulous activities and

some new FTCs were unable to fulfill their contracts (e.g. unable to purchase the promised domestic goods for exports). Since China had a long reputation of fulfilling foreign contracts, the increasing failure to meet contract obligations became a major concern not only to China's trading partners, but also to the Chinese central authority.

These events led to a retrenchment in mid-1988. As many as 2,000 FTCs were dissolved, reorganized or stripped of their right to conduct foreign trade. By the end of 1991, there were roughly 4,000 FTCs.

The scope of mandatory planning for foreign trade was also significantly reduced. The old foreign trade system was replaced by a system that combined mandatory planning, guidance planning and the market. The 1984 trade reform assigned mandatory exports and imports (i.e., trade specified in quantitative terms) to designated national FTCs and allowed other FTCs to conduct their trade both within and outside the guidance plans. Unlike mandatory plans, guidance plans were generally specified in value terms. In addition to being more flexible, these plans allowed FTCs to take market demand and supply into account when deciding the mix of tradables within each broad product group.

The mandatory export plan covered about 3,000 items before 1979, but by 1988 it fell to 112. By the end of the 1980s, exports under mandatory or guidance plans accounted for about 34% of total exports. Compared to the export system, the import system remained relatively unreformed in the 1980s. There were import licensing and high tariffs on protected products. In addition, almost all importers were faced with a series of complicated approval procedures. However, in the process of reforming the foreign trade system, the scope of mandatory planning for imports was also reduced. By 1991, no more than 40% of China's imports were under mandatory or guidance plans. In addition, as a consequence of a U.S.

market access 301 case in 1992 and China's desire to join the WTO, China has made progress in making its trade regime more transparent.

In 1992, the Chinese government took important steps to reform its trade policy (World Bank, 1993). A large number of trade documents previously unavailable to foreigners were published. Several steps were also taken to liberalize imports. The Customs Tariff Commission of the State Council reduced a large number of tariff rates. Rates were cut on 225 tariff lines, beginning on January 1, 1992. In addition, special import regulatory duties that had been instituted for 14 products in 1985 were lifted as of April 1, 1992.[5]

3. Issues Related to Re-exports

The only data source on re-exports that I am aware of are the official statistics of the Hong Kong government. Re-exports, as defined by the Hong Kong government, occur when imports to Hong Kong are consigned to a buyer in Hong Kong who takes legal possession of the goods. These imports must clear customs (that is why Hong Kong has such statistics). Buyers in Hong Kong add a markup and then re-export the goods elsewhere. They also may undertake minor processing of the imports before re-exporting them. However, they do not fundamentally change the character or nature of the goods (no substantial transformation) so that no Hong Kong origin is supposed to be conferred. If the process substantially changes the imports, then they become goods "made in Hong Kong" and exports of these goods are regarded as exports of Hong Kong goods. They are then classified in official Hong Kong statistics as "domestic exports" rather than "re-exports." Sung (1991), and more recently, Lardy (1994) and Fung (1995a) were among the first to consider the issue of re-exports in the context of Hong Kong-China trade.

Re-exports cost more than direct exports since they typically need additional loading, more customs clearing, and further insurance. The middleman also adds a markup before re-exporting. In 1988, the Hong Kong Trade Development Council carried out a large scale survey of Hong Kong traders. One result was that the re-export markup on Chinese goods was 16% and the markup on other countries' goods, 14%. Another survey conducted by the Hong Kong Census and Statistics Department indicated that the re-export markup for all re-exports in 1990 was 13.4%, but the mark-up for Chinese goods was much higher. The Department, however, did not publish the exact markup figure for Chinese goods in this survey. The higher markup for Chinese goods probably reflect the lower quality control on goods in China and the lack of information about overseas market by Chinese producers. Hong Kong middlemen thus need to do more repackaging and undertake a greater search for markets for Chinese products.[6]

3.1 China-Hong Kong Trade

The bulk of trade between Hong Kong and China involves re-exports. Hong Kong re-exports registered significant growth in 1993. The value of re-exports was HK$823 billion in 1993, about 19% higher than in 1992.[7] As re-exports grew rapidly while domestic exports by Hong Kong declined, the share of re-exports in total Hong Kong exports rose from 75% in 1992 to 79% in 1993.

China was the most important source of goods re-exported through Hong Kong. In 1993, Chinese goods re-exported via Hong Kong amounted to HK$474 billion or 58% of total re-exports (Table 2). A large proportion of the re-exports from China were products of outward processing commissioned by Hong Kong companies in China.[8] The major items of

re-exports from China were clothing, telecommunications and sound recording equipment, footwear, and textile yarn and fabrics. China also remained the largest market for Hong Kong's re-exports, accounting for HK$275 billion or 33% in value term of all goods re-exported through Hong Kong in 1993 (Table 3). Re-exports to China consisted mainly of textile yarn and fabrics, textile made-up articles, motor vehicles, electrical machinery, telecommunication and sound recording equipment, industrial machinery and plastic materials. The other major market for Hong Kong's re-exports was the United States (accounting for HK$180 billion or 22% of the total value in 1993).

Besides re-exports, the Hong Kong government collects data for retained imports (imports for domestic consumption), which are defined as total imports by Hong Kong minus re-exports. A more accurate definition would be total imports minus re-exports adjusted for the re-export markup.[9]

If we take the average markup on Chinese goods to be around 16%, the amount of retained imports from China becomes negligible or negative in recent years (Table 4). This implies that the markup for Chinese goods must be higher than 16%. However, we do not have much information of what the actual percentage is. In my interviews of Hong Kong businessmen in July 1994, the figure of 25% was suggested several times. Hong Kong officials who had presented cases in GATT also suggested that the markup was 25%. For the rest of this paper, we use an average re-export markup of 25% for Chinese goods.

The data on Hong Kong's export to China are also complicated by the existence of re-exports. But, given that Hong Kong government statistics provide data on Hong Kong's domestic exports, we can rely on these as figures for exports of Hong Kong goods to China.

3.2 China-Taiwan Trade

As previously noted, Taiwan forbids Taiwanese firms from trading directly with China, so all trade is supposed to occur indirectly. Most of this indirect trade takes place via Hong Kong. Trading via Hong Kong is often referred to as "triangular trade." There is also indirect trade between Taiwan and Mainland China via Japan, Singapore, Guam and other third parties (Kao 1993). In terms of trade data, neither Taiwanese sources nor Mainland sources are entirely accurate. The Mainland data are again contaminated by lumping trade with Hong Kong and re-exports together. In Taiwanese data, trade with China shows up mainly as trade with Hong Kong and other third parties. Table 5 shows Taiwanese indirect trade via Hong Kong, using Hong Kong data. There is also illegal direct trade that is not recorded properly in the Taiwanese trade statistics. Trade with Mainland China is heavily influenced by periods of contractions in China. The significant decrease of indirect trade between Taiwan and the Mainland in 1982-83 and in 1986 was due mainly to Mainland China's deflationary policies of those periods.

3.3 China-U.S. Trade

Chinese export statistics reported all exports to Hong Kong, whether for Hong Kong consumption or re-export to U.S. via Hong Kong as exports to Hong Kong. Chinese import statistics do take country of origin into account, but inconsistently. U.S. import data distinguish country of origin, including re-exports, but U.S. export data deal with exports to Hong Kong inaccurately. This is because re-exports, by definition, change legal possession, and U.S. exporters do not always know the final destination of the U.S. goods.

In calculating U.S. exports to China, we should add re-exports of American goods via Hong Kong to China to the recorded exports to China (although this may overstate the error because the U.S. data may catch those who know and declare that the final destination of the goods is China even when they are first shipped to Hong Kong). Table 6 illustrates the importance of taking re-exports into account when using U.S. export data.

Re-exports of U.S. goods via Hong Kong to China is not a trivial amount. On average, over 1989-1993 re-exports are 30.0% of the U.S. direct exports to China. Another important issue is the role of the re-export margin. Hong Kong middlemen raise the value of the U.S. goods shipped via Hong Kong. The average markup of non-Chinese goods is 14%. Re-exports and total exports not discounted by the markup are given in brackets in Table 6.

U.S. imports take re-exports into account. While there are severe difficulties tracing the country of origin (Krueger 1995), this problem is not entirely unique to trade with China. We assume that U.S. data for imports from Mainland China are by and large correct, or at least no worse than other published sources. But we do need to take the re-export margin into account. For Chinese goods, we take a markup of 25%, as discussed earlier. The adjusted trade balance, taking both re-exports and the re-export margins, is:

Adjusted U.S. Trade Balance with China = (Direct Exports of U.S. Goods to China +

Re-exports of U.S. goods to China via Hong Kong – 14% Re-exports Margins) –

(Direct imports of Chinese goods to the U.S. +

Re-exports of Chinese goods to the U.S. via Hong Kong – 25% Re-export Margins)

Using the adjusted figures, the U.S.-China bilateral trade deficits are shown in Table 7. The adjusted trade deficits, using U.S. and Hong Kong data, are quite different from the unadjusted, published deficits. If we use deficits adjusted for both re-exports and re-export margins, the deficits have to be revised downward by 31.1%, 33.0%, 31.3% and 45.3% for the years 92, 91, 90 and 89, respectively. This gives a four year average of 35.2%.[10]

Table 8 shows six different U.S. trade imbalances with China: published U.S. data, which show a growing trade deficit; published Chinese data, which show a U.S. surplus until 1993 when re-exports were beginning to be considered; Chinese data adjusted for re-exports only (in brackets); Chinese data adjusted for both re-exports and re-export margins; U.S. data adjusted for re-exports only (in brackets) and U.S. data adjusted for both re-exports and re-export margins. The most reliable one should be the U.S. data adjusted for both re-exports and re-export margins. However, as noted earlier, this correction overstates the problem, since some U.S. firms that export to China via Hong Kong may know in advance the final destination and may declare this in their custom forms.

If we compare the adjusted Chinese data with the U.S. published data, we see that the discrepancies are diminishing over time. As a percentage of the published U.S. data, the adjusted Chinese data is 34.6%, 56.0%, 58.5%, 66.4% and 92.1% from 1989 to 1993 respectively. If we use the adjusted U.S. data as the benchmark, as a percentage, the difference between U.S. adjusted data and Chinese adjusted data is 36.7%, 18.6%, 12.7%, 3.66%, and –34.0% from 1989 to 1993. It is interesting that by 1992, the difference between the two adjusted numbers is negligible. This gives us an indirect confirmation that our adjustments are not completely off the mark.

4. Issues Related to FDI-related Trade

4.1 China-Hong Kong Outward Processing Trade

The Hong Kong Census and Statistics Department began to compile statistics on domestic exports and re-exports to China related to outward-processing in the third quarter of 1988, and statistics on imports from China related to outward-processing in the first quarter of 1989. According to the Hong Kong Government, outward processing arrangements are made between Hong Kong companies and manufacturing entities in China under which the companies concerned sub-contract the whole or part of the production processes relating to their products to the Chinese entities. Raw materials or semi-manufactures are exported to China for such processing. The Chinese entity involved can be a local enterprise, a joint venture, or some other forms of business involving foreign investment (First Quarter Economic Report 1994). Almost four-fifths of Hong Kong manufacturers have transferred production to China. About 25,000 factories in the Pearl River Delta region of Guangdong are engaged in outward processing for Hong Kong companies, while 3 to 4 million workers are directly or indirectly employed by these firms (Ash and Kueh 1993). In 1993, the entire labor force in manufacturing in Hong Kong was only 0.5 million. Employment in China for outward-processing of Hong Kong goods is then between six to eight times that in Hong Kong. Tables 9, 10 and 11 document respectively the extent of domestic exports, imports and re-exports related to Hong Kong processing in China.

From Tables 9, 10 and 11, we see that 74% of Hong Kong's domestic exports to China were related to outward processing in 1993. The highest amount of outward processing was in watches and clocks, with 98.6%. For the five years between 1989 and 1993, the

overall percentage is fairly consistent, hovering between 74.3% and 79%. For imports from China, there is an increase from a low of 58.1% in 1989 to a high of 73.8% in 1993. As with domestic exports, watches and clocks had the highest outward processing ratio in 1993. For Hong Kong's re-exports to China, Table 11 shows that in 1993, 42.1% of all products were for outward processing. Compared to domestic exports and imports, this lower ratio is brought about by the low outward processing character of bulkier re-exports such as machinery and electrical appliances and metal and metal products (26.1% and 35.8% in 1993 respectively). Bulkier items tend to be produced outside of Hong Kong and are re-exported via Hong Kong to China without further processing. As regards Hong Kong's re-exports of China origin to overseas markets (not shown in the tables), 74%, 78% and 81% were products of outward processing arrangements commissioned from Hong Kong (First Quarter Economic Report 1994) in 1991, 1992 and 1993 respectively.

Hong Kong's outward processing with China involves a combination of assembly by Chinese firms and production in China by Hong Kong-owned firms.[11] Technically this trade is not all related to FDI, but a combination of FDI and Hong Kong subcontracting. However, in practice, outward processing often involves situations where the Hong Kong investor has de facto (though not necessarily legal) control of the operations.

We can compare the above outward processing activities with the extent of intra-firm trade involving U.S. multinationals. In essence, we compare intra-firm trade between the Hong Kong parents and their affiliates in China to that between the U.S. parents and their affiliates outside the U.S. But the comparison is not exact because Hong Kong outward processing can involve some local mainland Chinese enterprises. The industries are also not entirely comparable across countries. Unlike Hong Kong, the U.S. does not have statistics

related to intra-firm trade on re-exports. Nor do we expect re-exports to be an important share of total trade for the U.S.

From Tables 9, 10 and 12, we see that Hong Kong-China intra-firm activity is significantly larger for most industries. For all products, 76% of Hong Kong's domestic exports were related to outward processing in 1989, while the percentage of intra-firm exports for the U.S. was only 24.6%. On the import side, the corresponding figures for Hong Kong and the U.S. were 58.1% and 15.5% respectively. Using this comparison as an index of economic integration, Hong Kong is clearly more integrated to China than U.S. is to the rest of the world. Next we compare the outward processing activities of Hong Kong in China to intra-firm trade between U.S. and Mexico.

Table 13 reports related party imports to the U.S. from Mexico in 1991. Related Party trade is defined in Section 402 (g) (1) of the Tariff Act of 1930, as amended, to include transactions between parties with various types of relationships, including "any person directly or indirectly owning, controlling, or holding with power to vote, 6 percent or more of the outstanding voting stock or shares of any organization...." (U.S. Bureau of Census 1993). Related party trade includes imports into the United States by U.S. companies from their foreign subsidiaries as well as imports by U.S. subsidiaries of foreign companies from their parent company. I assume that imports into the U.S. by Mexican firms are small relative to those of the imports from the U.S. firms.

Related party imports in textiles were more intense between U.S. and Mexico than outward processing imports between Hong Kong and China, though for clothing, the figure for Hong Kong was much higher (see Tables 10 and 13). For metals and metal products, the U.S. import figure was, however, higher than the one for Hong Kong. Loosely speaking,

FDI-related trade in 1991 was somewhat larger between Hong Kong and China than between U.S. and Mexico (for all products, the percentage was 67.6% for Hong Kong-China vs. 63.2% for U.S.-Mexico). If we take FDI-related trade as one index of economic integration, then Hong Kong and China are more integrated than U.S. and Mexico.

4.2 China's FDI-Related Trade

China's Customs Statistics contain information about imports and exports related to FDI (or trade related to foreign-invested firms). FDI include three types of enterprises: Sino-foreign contractual joint venture, Sino-foreign equity joint ventures and wholly foreign owned enterprises. Contractual joint ventures, sometimes called cooperative ventures, are flexible arrangements that may take almost any form as long as the arrangement is acceptable to both parties. Usually the foreign partner contributes funds, equipment and technology while the Chinese partner supplies land, factory buildings, labor and raw materials.[12] Legally, China discourages subcontracting in joint ventures, hoping that there will be more transfer of technology and management skill.[13]

In addition to statistics on trade associated with FDI, there is also information about imports and exports related to foreign subcontracting, or compensation trade and processing and assembling operations (see China's Customs Statistics).[14] FDI are those in which the foreign investors have some legal control of the enterprises. With subcontracting the Chinese partner has legal control of the operations.[15] In processing and assembling, the foreign entity gives his manufacturing operation to a Chinese partner, providing the necessary materials, and selling the finished products abroad. In return, the Chinese partner gets the subcontracting fees for conducting the prescribed operations (usually no more than 10% of the

value of the finished products, see Lardy 1994). For compensating trade, the foreign partner provides China with equipment and receives products in return. Outputs from subcontracting have to be exported. Outputs from FDI can be sold domestically (Sung 1991). In this paper, foreign investment refer to both FDI and foreign subcontracting. Until recently, investments from Hong Kong and Taiwan tended to concentrate on subcontracting, while investments from U.S. and Japan tended to concentrate on FDI (Fung 1995a, Fung and Iizaka 1995). Table 14 decomposes Chinese imports and exports associated with different kinds of foreign investments (both FDI and foreign subcontracting) for the years 1992 and 1993.

According to China's Customs Statistics, 33.0% of the Chinese imports are related to FDI and subcontracting in 1993, while exports related to subcontracting are 17.7%.[16] The bulk of imports associated with foreign investments are processing and assembling (37.7% of imports related to foreign investments in 1993) and equipment and materials imported as investment by FDI (48.4% of imports related to foreign investments in 1993).[17]

We can further focus on the trade activities of foreign investments in two provinces where foreign investments from Hong Kong and Taiwan are most intense: Guangdong and Fujian. There are two sets of data on trade related to foreign investment in these two provinces, one from China's Customs Statistics and the other from the Statistical Yearbooks of the respective provinces.[18] The Customs data show imports and exports related to the three types of foreign enterprises. Imports and exports of these foreign firms are growing rapidly. For example, in Guangdong, total exports from foreign firms grew by 33.1% while imports grew by 41.9% in 1993 (Table 15).[19] Trade (both imports and exports) related to foreign-owned enterprises is an increasing share of total FDI-related trade in both provinces. In Fujian, 55.5 % of FDI exports and 49.0% of imports are those from foreign-owned

enterprises in 1993 (Table 16). Since the tour by Deng to southern China in early 1992, there has been a rush of foreign direct investment to China by Hong Kong and Taiwan firms. Part of the general increase in imports and exports in 1993 may reflect this trend.

The Statistical Yearbook of Guangdong and the Statistical Yearbook of Fujian have different classifications from the Customs Statistics and the classifications of these yearbooks also differ from one another. The provincial yearbooks attempt to separate out FDI and foreign subcontracting. According to these yearbooks, in 1991, 45% of Guangdong' exports are associated with either subcontracting or FDI (Table 17). The bulk of it is from FDI enterprises (38.9%). In Fujian, 9.4% came from subcontracting (Table 18). But there is no record of exports by foreign-invested firms in the Fujian Statistical Yearbook. Furthermore, if we look at the reported FDI exports from the statistical yearbook and compare these exports with those in the Customs Statistics, the data differ quite significantly. In general, data from the Customs Statistics are more reliable.

Another interesting question about foreign firms in China is the issue of where their products are going.[20] If they are made under subcontracting, then they are exported. But if they are produced by the three types of foreign enterprises, they can be for domestic use or for export. In 1994, the ChungHua Institution for Economic Research reported the results of a large scale survey in China on this issue. Table 19 indicates the export markets of the foreign firms.

From Table 19, we see that most products of foreign firms are destined for the domestic Chinese market. U.S. firms have the highest domestic percentage, with a figure close to 70%. Hong Kong has the lowest percentage, with 35%. About 16% of the value of U.S. goods produced in China is for sale back to the U.S. For Hong Kong firms, the export

markets are evenly spread over the U.S., Hong Kong and Taiwan, with the U.S. market being most important. For Taiwanese firms, after China, the largest market is Hong Kong. But it seems strange that only 0.9% of the sales go back to Taiwan. One reason may be that again exports have to go through Hong Kong before they go to Taiwan. In sum, the picture here is that foreign-invested firms sell most of their goods in China. This illustrates the growing importance of the domestic Chinese market. For both U.S. and Hong Kong firms, the U.S. is the next largest markets.

5. Issues with Illegal Trade

5.1 China-Taiwan Illegal Trade

As mentioned earlier, the Taiwanese government still officially has a policy of no direct contact with Mainland China. Much of the indirect trade occurs via Hong Kong as re-exports. But Taiwan's import controls on Mainland's products had been gradually liberalized. By the end of 1990, indirect imports of 92 items were permitted, including all agricultural and industrial raw materials (Kao 1993).

Transshipment (using the Hong Kong government's definition) means that goods are consigned directly from the exporting country to a buyer in the importing country, though the goods are transported via Hong Kong and are usually loaded into another vessel for further journey. Since transshipment is a form of direct trade, it is illegal from Taiwan's standpoint. Transshipment is not a part of Hong Kong trade because nobody has legal possession of the goods in Hong Kong.[21] The goods do not clear customs. According to Sung (1994), Taiwan's customs allow exporters to leave the final destinations open and specify Hong Kong

as the port where goods will be further transported elsewhere. In Taiwan's trade statistics, such exports are put under exports to Hong Kong. When the cargo arrives in Hong Kong, the shipping company can pick a Mainland port as the final destination.

Transshipment is different from transit shipment, which means that the goods do not change vessels and they just pass through Hong Kong on their way to the final destination. Exporters from Taiwan claim that their goods are going to Hong Kong when they leave Taiwan, and then claim in Hong Kong that they are going to the Mainland (Sung 1994). Unlike transshipment, this method of direct trade is risky since it involves lying to the Taiwanese government. The Hong Kong government has data on transshipments by weight but does not keep records of cargo in transit. The value of transshipments is not known because transshipped goods do not go through customs. Table 20 reports re-exports and transshipments via Hong Kong between Taiwan and Mainland China.

As early as 1980s, fishing boats were conducting direct barter trade between Taiwan and Fujian. Fujian legalized this trade in 1985. But the Taiwanese government considers such trade illegal smuggling. One estimate by researchers at Chung Hua Institution for Economic Research showed that in the late 1980s, such smuggling of Mainland Chinese goods to Taiwan was about one-third of Hong Kong re-exports of Chinese goods to Taiwan (Kao 1993). For 1989, this estimate puts the value of such illegal trade at US $195 million.

Table 21 reports Taiwanese exports to China via Hong Kong, via other places (Singapore, Japan, Guam, etc), and illegal direct exports (including transshipment, transit-shipment, minor trade, etc.). Total Taiwanese exports to Mainland China are significantly higher than "legal" trade alone. In 1991 and 1992, the percentage of illegal trade is 31.3% and 36.5% respectively. In 1992, illegal exports (direct exports) were between 52% to 60%

of legal exports (re-exports through Hong Kong and elsewhere). The corresponding figures for imports were between 44% and 76%.

5.2 Other Forms of Illegal Trade

While illegal trade between Taiwan and China arises primarily from policies of the Taiwanese government, there are also other more standard forms of illegal trade such as smuggling and tariff evasion, as documented by Sung (1991), Lardy (1994) and West (1995). In 1993, China's customs seized a record of U.S. $0.41 billion in smuggled products, an almost 80% increase over 1992. From 1981 to early 1993, more than 10,000 cases of smuggling at sea were discovered.[22]

Geographically, smuggling as a form of illegal trade is now a national rather than regional phenomenon. In the past, smuggling was mainly confined to southern coastal areas. In recent years, it has spread all the way up to the coast of Shandong and Dalian. However, it is unclear whether the increase of reported smuggling reflects the fact that enforcement has improved or that there are more incidences of smuggling.

Smuggling is most popular for products whose import is restricted by the government, either by tariffs or other barriers. From an economic standpoint, this illegal trade may be regarded as induced by inefficient governmental interventions.[23] Commonly smuggled items include color television sets, cars, cigarettes, motorcycles, air conditioners, steel products, and polyester fibers. In the first quarter of 1993, cars and cigarettes were reported to be the number one and number two smuggled goods.[24]

One can often get an idea of how large these smuggling incidents are by comparing bilateral trade statistics, preferably by quantity and, with some care, also by values. For

example, according to South Korean Customs, between January and April 1993, South Korea exported 26,688 cars to China, but China Customs statistics show only 166 cars imported from South Korea for the same period. One can infer that some of the "missing" cars have been smuggled into China to avoid Chinese customs (West 1995).

In the first quarter of 1994, about 35% of the major reported smuggling cases involved the use of fake customs certificates, seals, and customs officers signatures. There are also false declarations of origins (Lardy 1994). It has been reported that a Thai certificate of origin can be obtained for as low as $100 (Sung 1991). United States Trade Representative (USTR) reported that the U.S. Customs Service officers have found Chinese goods illegally labelled in at least 25 other nations, including Honduras, Panama and Hong Kong.

6. Conclusion

In this paper I try to clarify various conceptual and data issues related to China's trade. China's trade is characterized by at least three features: high incidence of re-exports via Hong Kong, high incidence of trade related to foreign investment, and high incidence of "illegal" trade, most notably with Taiwan. There are also indications that illegal trade in the form of smuggling and evasion of trade barriers is spreading to China's trade with all her trading partners.

In 1993, 67% of China's exports were re-exported via Hong Kong, and 34% of China's imports were re-exports via Hong Kong from the rest of the world. These re-exports complicate China's trade data with all her trading partners, and not until 1993 did China differentiate these re-exports from trade with Hong Kong. If we take these re-exports and the re-export margins into account, the bilateral U.S.-China trade deficits (using U.S. trade data)

must be adjusted downward by about 35%. Re-export and re-export margins affect not only Chinese trade data, but they also make other countries' trade data with China inaccurate.

Much of China's trade is also foreign-investment related. According to Chinese data, in 1993, 45.2% and 33% of the Chinese exports and imports, respectively, are due to foreign firms and foreign subcontracting.[25] In 1991, according to Guangdong data, about 44% of Guangdong's exports were associated with foreign investments. Furthermore, there are good reasons to believe that this figure is understated.

With respect to China-Hong Kong trade, 74.0% of China's imports from Hong Kong were related to outward processing in 1993. For China's exports to Hong Kong, the corresponding figure was 73.8%. Of the re-exports of Chinese goods to overseas market via Hong Kong, 81.0% were commissioned by Hong Kong firms, while 42.1% of re-exports via Hong Kong to China were due to outward processing.

"Illegal" trade between Mainland China and Taiwan was primarily induced by Taiwan's "no direct trade" policy. Most of the legal exports from Taiwan to Mainland China occur as re-exports via Hong Kong. In 1992, illegal direct exports from Taiwan to Mainland were between 52% to 60% of legal indirect exports. There are also some indications that other forms of illegal trade such as smuggling may be spreading. But other than a few isolated figures, it is difficult to get accurate estimates of illegal trade.

Endnotes

1. As China grows in importance, research into various aspects of China has also exploded, see e.g. Cheung (1995), Lau (1995), Wong (1995), Wong, Heady and Woo (1993), McKinnon (1991), etc. However, work on the foreign trade of China and direct investment in the country has been relatively sparse. Exceptions are, e.g., Sung (1991), Liu, et al. (1992), Lardy (1994), Fung (1995a,b), Fung and Iizaka (1995), and Fung and Lau (1996). Baldwin and Nelson (1993), Bergsten and Noland (1993), Feenstra (1995), Ito and Krueger (1993) and Noland (1990) contain recent research related to trade and trade policies with Taiwan and/or Hong Kong.

2. As Lardy (1992) points out, even different agencies within the Chinese government report Chinese data differently. For example, MOFERT export statistics on processing includes only the processing fees earned from such exports, which are less than 10 percent of the value of the exports. By contrast, China's Customs Statistics include the entire value of these exports.

3. Sung (1991), and more recently, Lardy (1994), Fung (1995a), and Fung and Iizaka (1995) were among the first to quantitatively highlight the importance of re-exports in China's trade.

4. Kao (1993), Sung (1994) and Fung (1995a) discuss the issue of transshipment.

5. However, the effects of these measures have been essentially to bring the average tariff level back to the pre-1987 levels, see World Bank (1993).

6. Another interpretation is that the higher markup of Chinese goods reflects transfer pricing by Mainland Chinese traders based in Hong Kong. I am indebted to Larry Lau for suggesting this interpretation.

7. The exchange rate between HK$ and US$ is fixed. In 1993, the rate was US $1 = HK $7.7.

8. I discuss trade related to outward processing in section 4.

9. See Sung (1991) for an early discussion.

10. This downward revision is larger than those reported in Lardy (1994), primarily because of the use of different re-export margins. West (1995) also reported different adjustments because she uses different markups for different periods and she also takes into account other minor adjustments (such as low-level threshold, i.e., the U.S. Customs do not report export transactions that are under US $2,500).

11. I discuss the different types of foreign investment in China immediately following the section on outward processing from Hong Kong.

12. See Sung (1991), Ash and Kueh (1993) and Fung (1995a) for further discussions on the three types of enterprises.

13. But according to my own interviews of Hong Kong businessmen, in practice, subcontracting seems to be quite common among joint ventures as well.

14. Ash and Kueh (1993), Sung (1991) and Fung (1995a) contain discussions of these activities.

15. But, in practice, the Chinese partner manufactures according to the orders given by the foreign partner, who arguably has real control.

16. These figures are calculated by dividing the foreign investment-related imports and exports by China's total imports and exports for 1992 and 1993.

17. On the export side, exports by foreign-invested firms amounted to U.S. $25.2 billion, or

27.5% of the Chinese total exports (Lardy 1994). Total exports associated with foreign investment (both FDI and subcontracting) in 1993 was 45% of total Chinese exports.

18. Ash and Kueh (1993) also contained discussions of trade related to foreign investments in Guangdong and Fujian.

19. The growth rates are not shown in Table 16.

20. For a comparison of U.S. firms and Japanese firms in China, see Fung and Iizaka (1995).

21. This definition of transshipment is different from the term transshipment used in popular discussions of Chinese trade. In the popular press, transshipment is often used in the context of false declaration of origins and misuse of quotas, particularly MFA quotas.

22. West (1995) contains more detailed discussions.

23. Part of the governmental interventions in U.S.-China trade are imposed by the U.S. government. In textile and clothing, trade is regulated via the Multifiber Arrangement (MFA). In high technology trade, the U.S. government imposes some export controls (Richardson 1993).

24. See West (1995) for further discussion.

25. In 1993, exports associated with subcontracting alone are 17.7% while exports associated with FDI are 27.5%.

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Table 1

China's Foreign Merchandise Trade

Year	Total	Exports	Imports
1978	20.7	9.8	10.9
1979	29.4	13.7	15.7
1980	38.1	18.1	20.0
1981	44.0	22.0	22.0
1982	41.6	22.3	19.3
1983	43.6	22.2	21.4
1984	53.5	26.1	27.4
1985	69.7	27.4	42.3
1986	73.8	30.9	42.9
1987	82.7	39.4	43.2
1988	102.8	47.5	55.3
1989	111.7	52.5	59.1
1990	115.4	62.1	53.4
1991	135.7	71.9	63.8
1992	165.6	85.0	80.6
1993	195.8	91.8	104.0

Source: Statistical Yearbook of China, 1993.

Note: The figures are in US$ billion. Exports are valued on a f.o.b. basis, imports on a c.i.f. basis.

Table 2

Re-exports in Hong Kong Trade

	1992	1993
1) Total Re-exports	690.8	823.2
2) Re-exports to China	212.1	274.6
3) Re-exports of China origin	403.8	474.0
4) Re-exports not involving China	95.1	96.5

Source: Economic Background, Economic Analysis Division, Financial Services Branch, Government Secretariat, Hong Kong 1993.

(2), (3) and (4) sum to be greater than (1) because re-exports of China origin back to China have been counted twice in 2) and 3).

Figures are in billion of HK dollars.

Table 3

Hong Kong Re-exports by Major Markets

	1992	1993	Growth Rate in 1993
All Markets	690.8	823.2	19%
	(100)	(100)	
China	212.1	274.6	29%
	(31)	(33)	
United States	148.5	180.3	21%
	(21)	(22)	
Japan	37.5	44.2	18%
	(5)	(5)	
Germany	33.1	40.8	23%
	(5)	(5)	
United Kingdom	20.6	24.5	19%
	(3)	(3)	
Taiwan	26.2	21.9	-16%
	(4)	(3)	
Rest of the World	212.9	236.9	11%
	(31)	(29)	

Source: 1993 Economic Background, Government Secretariat, Hong Kong.

Note: Value of re-exports are in billion HK$. In brackets are the shares of the re-exports.

Table 4

Hong Kong's Imports from China

Year	Adjusted Retained Imports	Unadjusted Retained Imports
1977	1,377	1,286
1979	2,268	2,076
1981	3,715	3,325
1983	4,048	3,588
1984	4,686	4,075
1985	4,546	3,790
1986	5,966	4,842
1987	7,428	5,591
1988	7,948	5,084
1989	8,801	4,698
1990	5,624	-549
1991	4,212	-3,913
1992	2,457	-7,975
1993	1,147	-11,108

Source: Review of Oversees Trade, relevant issues, Hong Kong Government. Values are in US$ million.

Table 5

Trade between Taiwan and Mainland China via Hong Kong

Year	Taiwan to Mainland	Mainland to Taiwan
1979	21	55
1980	242	78
1981	390	76
1982	208	89
1983	168	96
1984	425	127
1985	987	116
1986	811	144
1987	1,226	289
1988	2,242	478
1989	2,896	586
1990	3,278	765
1991	4,679	1,129
1992	6,288	1,119

Source: Census and Statistics Department, Hong Kong Government, Hong Kong External Trade, various years.

Note: Figures are in US$ million.

Table 6

U.S. Exports to China Adjusted for Re-exports

Year	US Source	Re-exports to China via Hong Kong		Total Adjusted Exports	
1993	8.77	2.79	(3.18)	11.56	(11.95)
1992	7.47	2.06	(2.35)	9.53	(9.82)
1991	6.29	1.50	(1.71)	7.79	(8.00)
1990	4.81	1.16	(1.32)	5.97	(6.13)
1989	5.76	1.16	(1.32)	6.92	(7.13)

Source: Hong Kong External Trade, Census and Statistics Department, Hong Kong Government, US Foreign Trade Highlights, US Department of Commerce, various years.

Note: Figures are in US$ Billion. Figures in brackets are those unadjusted by re-export markup.

Table 7

Adjusted U.S.-China Bilateral Trade Balance (US Source)

	Unadjusted Balance	Adjusted Trade Balance	
1993	-22.76	-15.63	(-19.59)
1992	-18.26	-12.58	(-15.91)
1991	-12.68	-8.50	(-10.97)
1990	-10.43	-7.17	(-9.11)
1989	-6.18	-3.38	(-4.91)

Source: Same as Table 6.

Note: Figures are in US$ billion. Figures in brackets are not adjusted by re-export margins.

Table 8

Adjusted U.S. Trade Deficits with China

	Adjusted Chinese Data		Adjusted US Data		Chinese Source	US Source
1989	2.14	(3.7)	3.38	(4.91)	-3.5	6.18
1990	5.84	(7.8)	7.17	(9.11)	-1.4	10.43
1991	7.42	(9.9)	8.50	(10.97)	-1.8	12.68
1992	12.12	(15.5)	12.58	(15.91)	-0.3	18.26
1993	20.95	(24.9)	15.63	(19.59)	6.3	22.76

Source: Same as Table 6 and China's Customs Statistics and Economic Background, Hong Kong Government Secretariat, various years.

Note: Figures are in US$ billion. Figures in brackets are those not adjusted by the re-export margin.

Table 9

Percentage Share of Domestic Exports to China of Outward-Processing Nature to Total Domestic Exports to China, by Product Groups

Product Group	89	90	91	92	93
Textiles	84.8	84.2	83.7	87.4	86.8
Clothing	85.1	87.9	89.6	93.2	94.2
Plastic Products	83.9	86.1	79.6	77.5	81.5
Machinery & Electrical Appliances	56.7	62.2	58.6	59.7	54.0
Electronic Products	94.6	94.4	92.5	92.7	94.7
Watches & Clocks	98.5	97.3	98.1	98.5	98.6
Toys, Games & Sporting Goods	96.4	96.9	96.1	91.9	97.2
Metals & Metal Products	64.2	71.1	73.5	69.0	65.1
All Products	76.0	79.0	76.5	74.3	74.0

Source: Hong Kong Census and Statistics Department, Hong Kong External Trade, relevant issues

Table 10

Percentage Share of Imports from China of Outward-Processing Nature to Total Imports from China, by Product Groups

Product Group	89	90	91	92	93
Textiles	12.8	18.2	20.5	23.0	27.3
Clothing	84.5	87.4	86.6	84.4	83.1
Plastic Products	73.4	78.0	84.8	89.3	90.4
Machinery & Electrical Appliances	77.8	73.3	78.7	81.0	76.4
Electric Products	85.2	88.7	89.7	92.7	91.5
Watches & Clocks	94.6	94.9	96.4	94.3	95.8
Toys, Games & Sporting Goods	94.1	94.8	92.1	96.9	91.6
Metals & Metal Products	30.2	32.5	29.6	43.6	52.3
All Products	58.1	61.8	67.6	72.1	73.8

Source: Hong Kong Census and Statistics Department, Hong Kong External Trade, various issues

Table 11

Percentage Share of Re-exports to China of Outward-Processing Nature to Total Re-exports to China, by Product Groups

Product Group	89	90	91	92	93
Textiles	71.5	75.9	77.1	81.9	81.0
Clothing	87.3	86.5	84.1	76.0	80.2
Plastic Products	58.0	68.7	58.3	64.5	63.0
Machinery & Electrical Appliances	24.9	31.2	26.7	27.3	26.1
Electric Products	43.1	52.9	46.9	41.4	35.7
Watches & Clocks	93.5	96.9	96.3	97.7	98.7
Toys, Games & Sporting Goods	60.1	73.2	66.8	80.1	79.9
Metals & Metal Products	37.8	46.4	48.1	34.8	35.8
All Products	43.6	50.3	48.2	46.2	42.1

Source: Hong Kong Census and Statistics Department, Hong Kong External Trade, various issues

Table 12

Intra-Firm Exports and Intra-Firm Imports as a Percentage of Total U.S. Exports and Imports with U.S. Parents, 1989

	Exports	Imports
Textile Products & Apparel	11.42%	10.98%
Rubber & Plastics	23.88%	6.23%
Machinery	20.41%	18.25%
Electric & Electronic Equipment	22.16%	15.45%
Primary & Fabricated Metals	7.26%	2.93%
All Industries	24.64%	15.46%

Source: U.S. Direct Investment Abroad, 1989 Benchmark Survey, U.S. Department of Commerce and U.S. Statistical Abstract, U.S. Bureau of the Census.

Table 13

Related Party Imports From Mexico (1991)

Textile Yarn, Fabrics, Made-up Articles	58.49%
Articles of Apparel & Clothing Accessories	47.15%
Articles of Plastics	59.33%
Machinery, Electrical & Others	85.04%
Toys & Sports Equipment	85.28%
Electronic Products and Parts	89.53%
Metals and Metal Products	43.87%
All Products	63.2%

Source: U.S. Merchandise Trade, Related Party Imports from North American Trading Partners 1991, Economics and Statistics Administration, Bureau of the Census, 1993.

Table 14

Foreign Investment-Related Trade in Mainland China

Imports	**1992**		**1993**	
Total	24.36	(100%)	34.37	(100%)
Processing and Assembly	12.64	(51.89%)	12.97	(37.73%)
Equipment imported for Processing and Assembly	1.207	(4.96%)	1.324	(3.85%)
Equipment & Materials imported as investment by FDI	8.018	(32.92%)	16.63	(48.38%)
Compensating Trade	0.250	(1.02%)	0.330	(0.96%)
Materials or Components imported by FDI for Manufacturing Products for Domestic use	2.243	(9.21%)	3.121	(9.08%)
Exports				
Total	15.60	(100%)	16.28	(100%)
Processing and Assembling	15.30	(98.09%)	15.96	(98.07%)
Compensation Trade	0.298	(1.91%)	0.314	(1.93%)

Source: China's Customs Statistics, 1992 and 1993.

Note: Figures are in US $billion. Figures in brackets are shares of the foreign investment-related imports and exports.

Table 15

Trade by FDI Enterprises in Guangdong Province (Customs Source)

Imports	**1989**	**1992**	**1993**
Total	4.85	13.95	19.80
Sino-Foreign Contractual Joint Venture	1.14	3.32	5.88
Sino-Foreign Equity Joint Venture	3.11	7.43	9.28
Foreign-Owned Enterprise	0.61	3.19	4.64
Exports			
Total	3.53	10.79	14.37
Sino-Foreign Contractual Joint Venture	0.71	2.40	3.35
Sino-Foreign Equity Joint Venture	2.26	5.69	6.88
Foreign-Owned Enterprise	0.56	2.70	4.14

Source: China's Customs Statistics, 1989, 1992 and December 1993.

Note: The figures are in US$ billion.

Table 16

Trade by FDI Enterprises of Fujian Province (Customs Source)

Imports	**1989**	**1992**	**1993**
Total	0.760	2.50	3.57
Sino-Foreign Contractual Joint Venture	0.047	0.106	0.201
Sino-Foreign Equity Joint Venture	0.591	1.31	1.63
Foreign-Owned Enterprise	0.120	1.09	1.75
Exports			
Total	0.490	1.93	2.49
Sino-Foreign Contractual Joint Venture	0.047	0.0908	0.123
Sino-Foreign Equity Joint Venture	0.363	0.929	0.984
Foreign-Owned Enterprise	0.086	0.910	1.382

Source: China's Customs Statistics, 1989, 1992, December 1993.

Note: Figures are in US$ billion.

Table 17

Foreign Investment-Related Trade of Guangdong (Guangdong Source)

Imports	**1988**	**1989**	**1990**	**1991**
Guangdong Imports	5.11	4.83	5.75	8.51
FDI Enterprise	1.13	1.95	3.30	4.51
Exports				
Guangdong Exports	7.48	8.17	10.6	13.7
Processing & Assembly	0.347	0.578	0.583	0.800
Compensating Trade	0.06	0.06	0.078	0.095
FDI Enterprise	1.20	2.28	3.72	5.33

Source: Guangdong Tongji Nianjin (Guangdong Statistical Yearbook), 1990, 1992.

Note: Figures are in US$ billion.

Table 18

Foreign Investment Related Trade of Fujian (Fujian Source)

Imports	**1988**	**1989**	**1990**	**1991**
Fujian Imports	1.43	1.59	1.90	2.61
Processing & Assembling	0.15	0.16	0.16	0.25
Equipment & Materials Imported by Foreign-Invested Enterprises	0.23	0.17	0.24	0.28
Compensating Trade	0.005	0.01	0.004	0.005
Components Imported by FDI for Manufacturing Products for Domestic Use	0.01	0.08	0.01	0.02
Exports				
Fujian Exports	1.42	1.83	2.45	3.15
Processing & Assembling	0.12	0.18	0.21	0.29
Compensating Trade	0.01	0.01	0.01	0.005

Source: Fujian Tongji Nianjin (Fujian Statistical Yearbook), 1991, 1992.

Note: Figures are in $US billion.

Table 19

Markets for Manufactured Products Produced by Foreign Firms in Mainland China (1992)

Market	Mainland China	Taiwan	Hong Kong	Europe	Japan	US	Others
Firm							
Hong Kong/ Macau	35.4	12.0	13.2	7.0	7.5	14.1	10.8
US	69.5	0.0	2.8	3.6	1.9	15.6	6.6
Taiwan	59.6	0.9	22.3	4.1	2.2	4.8	6.1
Singapore	55.2	1.0	9.7	9.0	4.2	8.0	12.9

Source: Chung Hua Institution for Economic Research 1994

Note: Figures are in percentage of the value of sales.

Table 20

Re-exports and Transshipments via Hong Kong: Taiwan and China

Year	Re-exports		Transshipments	
1989	2,897	(587)	33,283	(6,662)
1990	3,283	(766)	43,757	(12,447)
1991	4,685	(1,130)	272,475	(87,610)
1992	6,336	(1,128)	527,427	(211,026)

Source: Hong Kong Review of Overseas Trade, Hong Kong Shipping Statistics.

Note: Re-exports are in million US$; transshipments are in tons. Figures in brackets are re-exports and transshipments from China to Taiwan via Hong Kong. Figures without brackets are re-exports and transshipments from Taiwan to China via Hong Kong.

Table 21

Taiwan's Exports to Mainland China

	Re-exports via HK	Re-exports via Others	Direct Exports		Total	
1988	2,242	960	116	(236)	3,318	(3,438)
	(3.6%)				(5.5%)	(5.7%)
1989	2,896	1,241	642	(793)	4,779	(4,930)
	(4.4%)				(7.2%)	(7.4%)
1990	3,278	1,405	1,361	(1,525)	6,044	(6,208)
	(4.9%)				(9.0%)	(9.2%)
1991	4,679	2,005	3,189	(3,399)	9,873	(10,083)
	(6.1%)				(13.0%)	(13.3%)
1992	6,288	2,695	5,392	(4,705)	14,375	(13,688)
	(7.2%)				(17.6%)	(16.8%)

Source: Kao (1993), Sung (1994), Taiwan Department of Statistics, Ministry of Finance.

Note: Figures are in US million $. Figures in brackets below are percentage of total Taiwanese exports. Figures of direct exports in brackets are alternative estimates from Sung (1994).

Table 22

Taiwan's Imports from the Mainland

	Re-exports via HK	Re-exports via Others	Direct Imports		Total	
1988	478	205	n.a.	(14)	683	(697)
	(1.0%)				(1.4%)	(1.43%)
1989	586	251	93	(37)	930	(874)
	(1.1%)				(1.8%)	(1.69%)
1990	765	328	320	(70)	1,413	(1,163)
	(1.4%)				(2.6%)	(2.14%)
1991	1,129	484	595	(501)	2,208	(2,114)
	(1.8%)				(3.5%)	(3.35%)
1992	1,119	479	698	(1,219)	2,296	(2,817)
	(1.6%)				(3.2%)	(3.93%)

Source: Kao (1993), Sung (1994), Taiwan Department of Statistics, Department of Finance

Note: Figures are in US $ million. Figures in brackets below are percentages of total Taiwanese imports. Bracketed figures under the direct import column are estimates by Sung (1994).