-Les AuCoin

Congressman Les AuCoin
Congressional Record
Extension of Remarks

Mr. AuCoin. Mr. Speaker, I would like to share with my colleagues two articles, one which appeared in the July 14, 1978 Washington Post and the other in The Wall Street Journal on July 5, 1978.

As you know, I have strongly supported increased trade with the People's Republic of China, a country that is now undergoing rapid industrial expansion, and thus could be a vital trading partner for the United States which has a massive trade deficit.

The articles reprinted below are further evidence of China's need for credits and their interest in such financing. Meeting that need was the purpose of my amendment to the Export-Import Bank Reauthorization Act.

CHINA GIVES ITS RESERVES - Washington Post

China has more than $2 billion in foreign currency reserves but will need extensive additional foreign funds in two years to finance its modernization program, Kyodo News Service reported yesterday.

In a dispatch from Peking, Kyodo quoted Chinese Vice Premier Li Hsien-Nien as telling a visiting delegation from Japan's Mitsui Industrial Group that China will ask for such funds in two year's time.

"We can do without foreign funds this year, because our foreign currency reserves at the moment total well over $2 billion," Li was quoted as saying.

Kyodo said it was the first time a senior Chinese government official disclosed the specific amount of the country's foreign exchange reserves."

CHINA APPEARS POISED TO TAKE PLUNGE INTO WORLD MARKETS TO SEEK DIRECT LOANS - The Wall Street Journal

Hong Kong - China's new leaders appear to have decided to abandon one of their most cherished principles -- the rejection of direct loans -- in a reversal that has far-reaching implications for the country's economic development.

Reports reaching Hong Kong in recent days, while a major conference on finance and trade was in session in Peking, indicate that fundamental policy changes are under discussion. Direct borrowing had been ruled out in the past on the ground that China wanted to be self-reliant. One of China's boasts in the 1960s was that it was a country with "neither internal nor external debts."

Last week, however, Vice Premier Li Hsien-Nien, the country's top financial planner, is understood to have told visiting members of Britain's Parliament that China intends to start borrowing money from British banks.

On Saturday, a high Communist source in Hong Kong said privately that "it is only a matter of time" before China would accept loans openly. The source acknowledged that, after all, deferred payments on foreign plant purchases, which run into billions of dollars, are merely a thinly disguised form of loan.

And on Sunday, an American businessman who had just arrived from Peking said that a senior China trade official had confirmed to him that the possibility of accepting loans was "under consideration".

China's willingness to accept loans would add powerful impetus to its efforts to achieve rapid economic modernization. Although it has set itself ambitious targets to be achieved by the turn of the century, its ability to import costly but essential foreign technology and plants is limited by the amount of foreign exchange it can earn through exports.

Viewed as Good Risk

Bankers and financial analysts generally consider China a good risk, and there probably won't be any shortage of willing lenders. One Western economist estimated that China, which earned about $7 billion in foreign exchange through exports last year and which is estimated to have $4 billion to $5 billion in reserves, could borrow $7 billion without difficulty.

Another analyst, however, felt less sanguine and said that once China's borrowings got up to $5 billion or so, "Bankers would start to think about how China would repay its debts."

In view of the country's good credit standing, he estimated that China would probably be charged interest rates lower than those for other less developed countries -- perhaps one percentage point, or even less, above the London interbank rate for dollars. Even lower interest rates are available from aid-giving agencies, such as International Development Agency, but China isn't a member of the World Bank, the IDA'S parent body, and also may decline loans given in the form of aid.

An economist at a U.S. bank in Hong Kong said that many countries maintain a debt-service ratio of 20%, that is, their payments wouldn't be any more than one-fifth of their annual foreign-exchange earnings. Using this ratio, he said, China's borrowings could rise to as much as $12 billion for long term loans, and if, as expected, Chinese exports increase sharply, the country's borrowing capacity also would rise proportionately.

Earlier Debts

The economist observed that China's debt-service ratio in recent years has ranged between 4% and 23%, and he estimated the 1977 level at 11%. These debts were incurred in earlier years when China went on a buying spree and imported several billion dollars of complete plants on a deferred-payment basis.

The importance of foreign credits was underlined in a major speech delivered at the finance and trade conference by Yu Chiu-li, a vice premier and head of the state planning commission. The speech, delivered Sunday, openly discussed offsetting deposits that the Bank of China maintains with foreign banks, a practice that is an indirect form of borrowing as foreign banks deposit hard currencies with the Bank of China, which in turn deposits equivalent amounts of nonconvertible renminbi, Chinese currency, with those banks.

Mr. Yu, in his speech, implied that such forms of borrowing may increase. "Along with the growth of foreign trade and expanded relations with other countries, the role of the bank will be expanded and financial activities with foreign countries will increase," he said. "We must receive and use foreign deposits in a planned way, handle well the deposits of overseas Chinese, international settlements and insurance operations . . . and develop friendly international exchanges through the bank's relations with foreign countries."

Seeks Economic Growth

Mr. Yu said that the basic principle of China's financial work was "to increase state revenue and credits through the growth of the economy."

If China does go into direct borrowing, it is likely to begin on a relatively small scale. Mr. Yu, in his talk, said China intends to finance imports of new technology primarily through increasing its export earnings.

He said China would adopt "common international practices" and apply these "flexibly" in its attempt to "achieve modernization rapidly and correctly."

As an example of new flexibility, Mr. Yu said that foreign equipment could be imported and paid for with the products produced. Presumably, this means that China could, for example, import coal-mining equipment and pay for the equipment with the coal produced.