CHINA'S FOREIGN TRADE: A DILEMMA IN FOREIGN POLICY 1949-1965

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Omaha, 1977
Thesis Approved

By

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Major Advisor

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TABLE OF CONTENTS

INTRODUCTION ..................................... 1
PATTERNS OF EARLY TRADE. .......................... 3
THE COMMUNISTS TAKE OVER ........................... 11
REHABILITATION ................................. 15
THE FIRST FIVE-YEAR PLAN ........................... 18
THE GREAT LEAP ..................................... 26
NEW PARTNERS - NEW POLICIES ......................... 31
CONCLUSION ......................................... 39
BIBLIOGRAPHY ..................................... 52
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Soviet Exports to China</td>
<td>30</td>
</tr>
<tr>
<td>2.</td>
<td>Chinese Exports to USSR</td>
<td>30</td>
</tr>
<tr>
<td>3.</td>
<td>Principle Non-Communist Partners - 1965</td>
<td>37</td>
</tr>
<tr>
<td>4.</td>
<td>China's Foreign Trade, Selected Years</td>
<td>45</td>
</tr>
</tbody>
</table>
INTRODUCTION

This paper will examine the foreign trade of the People's Republic of China: its trade partners, the volume of its trade, and (to a limited extent) the commodity composition of that trade. In the process of this examination, a dilemma inherent in China's foreign trade should become apparent: a major foreign policy goal of the People's Republic of China is for China to assume (or resume) its "rightful" place among world powers. Yet a principal means to this goal is industrialization, and the technology as well as the hardware to industrialize must come from other countries. The exchange to pay for this industrialization should logically come from surpluses in foreign trade.

Thus, while China's foreign trade can be said to support China's foreign policy in the long run, in the short run it has fallen short of that aim. While economic independence is a long-term goal, economic dependence has been a short-term result.

This study focuses on the period 1949 to 1965, the period from the establishment of the current regime to the inception of the Cultural Revolution.
First, it is during this period that the dilemma is most apparent. Second, the disruptions caused by the Cultural Revolution make this a convenient place to stop.

This subject was chosen because of my recent completion of the required course in international economics, and further curiosity about the subject, whetted by my ignorance of it, especially since U.S. trade with China has been resumed. The recent resurgent interest in China due to the deaths of Chou En-lai and Mao Tse-tung, and the expected struggle for power, is also a factor.

Moreover, as Stahnke points out:

The study of foreign trade policies and practices is especially important in the Chinese case. First of all, since trade is centrally controlled and managed, actions in this area are fairly indicative of the Chinese leadership's attitudes and wishes. Second, unlike the study of some other topics, a great deal of detailed and concrete data can be obtained from China's trading partners. These sources not only provide an independent check on data gotten from Chinese sources but also contribute a fresh point of view of persons who have had actual dealings with the Chinese.1

PATTERNS OF EARLY TRADE

While it is not the purpose of this portion of the paper to recount the entire history of China's foreign trade, it would be worthwhile to mention a few particulars. The early Chinese economy was basically agrarian. Trade consisted mainly of local fairs and markets at which farm surpluses were traded. These markets generally attracted participants from up to a day's round trip by foot or by sampan.

Over and above this regional trade was an interregional commerce of items which were government monopolies, such as salt or porcelain. Items which had become regional specialties because of their relative quality, such as tea from Fukien and Kwangsi, and silk from the Shanghai area, were also traded.

International trade was seen as a specialized form of this interregional trade, and a rather unimportant form at that. Silks, porcelain and brick tea were traded to the "barbarian" world. In general, the early balance of trade favored China, with gold and silver bullion flowing into the Middle Kingdom from Japan and later from Mexico via the Phillippines, and
on occasion from India and Europe.  

During the 18th Century, Canton was the sole port open to foreigners in China. European traders were periodically allowed to sail up the Pearl River from Macao and deal with Imperial agents. However, a rapidly growing demand for Chinese tea in Britain, and to a lesser extent, in the rest of Europe, was not balanced by a Chinese demand for foreign goods. The British "balanced" their payments by exporting opium and raw cotton from India to China. During the period 1817 to 1830, reported opium shipments to China increased from 22 percent to 56 percent of total imports, while tea remained a fairly static 60 percent of exports. By 1830, China's trade deficit was about $10 million on a turnover (imports and exports combined) of about $49 million.  

The Opium War opened a number of "Treaty Ports" to European trade, and subsequent concessions by the 


3Ibid., p. 141. These figures, as well as all subsequent dollar figures, are U.S. dollars. Eckstein gives the figures in Spanish dollars which at that time were worth about U.S. $1.10.
Manchu dynasty opened even more. Of this era, Lewin makes the point that "... foreigners traded in, rather than with, China... ."\(^4\)

During the Taiping Rebellion (1850-1864), the Manchu government attempted to increase revenue by the imposition of likin, a tax on goods in transit from province to province, and, in some cases from town to town within a province. However, the Treaty of Tientsin, 1858, allowed foreign merchants to transport goods inland without paying the tax, giving them a chance to trade in the interior on better terms than native merchants.\(^5\)

During this period, the nature of imports began to change. The opium trade was controlled and taxed. While significant amounts of opium were probably smuggled and remained a drain on the economy, by the middle eighties cotton manufactures had gained first place among China's reported imports. Other imports included

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kerosene as well as matches, soap, and other consumer goods.

Chinese exports began to take on a character they were to retain for a number of years: soy beans, vegetable oils, and bristles and other animal products. By the end of the century, however, silk and tea still accounted for about 60 percent of exports.

The estimated value of imports during this period, 1845 to 1890, doubled and exports grew nearly six times. By 1895, the total foreign trade amounted to about $250 million.\(^6\)

China's defeat in the Sino-Japanese War in 1895 had both short and long-term consequences for China's foreign trade. Under the Treaty of Shimonoseki, which concluded that war, Japan was given the right to establish industry on Chinese soil. By virtue of most favored-nation clauses, so were the other powers.

Further, China was forced to contract large foreign loans to pay war indemnities to Japan. Foreign debt was increased by indemnities owed the powers as a result of the Boxer Rebellion of 1900-1901. While some economic reforms were attempted by the government,

\(^6\)Ibid., pp. 22-23.
these had little effect and did not forestall the ultimate collapse of the Manchu government in 1911.

One of the aims of Dr. Sun Yat-sen's Kuomintang was to create a political system that would allow China to modernize her economy without relying upon foreign initiative. "...the Western Powers and Western entrepreneurs found themselves obliged to approach China in a new spirit."\(^7\) By 1928, China's tariff autonomy was restored. A rise in import duties caused an expansion in native industry, especially in Shanghai.

However, native industry never amounted to much. It was confined mainly to the Treaty Ports, due in no small part to the comparative law and order in those areas. Further, most of the native industry was oriented toward the export trade or toward import substitution of consumer goods.\(^8\)

Thus, because industry was located away from raw materials, because the economy was dominated by foreign owned industry, and because native industry was oriented toward consumer goods, little benefit

\(^7\)Ibid., p. 27.

accrued to the Chinese economy, despite the intentions of the Kuomintang and the powers.

The total value of Chinese imports in 1931 was approximately $678 million, while the value of exports was about $532 million.\(^9\) Japan, the United States, and Hong Kong were principal partners, accounting among them for over half China's imports and exports. The United Kingdom, Germany and France were other major customers, accounting for another 14 percent of trade between them.\(^10\)

When the Japanese took over Manchuria in 1932, they began an ambitious program of industrialization in that area. By the beginning of the Sino-Japanese war in 1937, "Manchuria had emerged as a heavy industry base, modest in relation to the country's size and population but never-the-less of substantial proportions, while the treaty ports remained the center of the light consumer goods industries."\(^11\)

\(^9\)Allen and Donnithorne, p. 257.
\(^10\)Lewin, p. 9.
Little can be said of Chinese trade during the years 1937-1945. The Japanese occupied the coastline, in the process capturing most native industry. After Pearl Harbor they confiscated allied properties, including the industries in the Treaty Ports. While the Chinese attempted to establish some industry in Free China, they were unable to establish a base at all comparable with pre-war levels. Finally, Japanese conquests for all intents and purposes blockaded China.

At the end of the war, the Chinese government took over $1.8 billion worth of Japanese-owned industry and operated them as State Enterprises under a Natural Resource Commission. "On the eve of the Communist take-over, the Commission controlled nearly 68% of all industrial capital in China, facilitating the process of nationalization."12

Nor should we spend much time on the years 1945 to the Communist take-over in 1949. Inflation was rampant. Imports, both of a commercial nature, as well as the result of U.N. and U.S. aid programs, were introduced in an attempt to mop up surplus purchasing power. Because it was once again possible to move raw

12Chen and Galenson, p. 22.
materials, there was a surge of exports. Moreover, much of the output of the textile industry was devoted to export. Still, during the period 1946-1948, total imports were put at nearly $1.7 billion (of which just over $1 billion were commercial imports). Exports only amounted to $535 million. Chinese holdings of foreign exchange fell accordingly. The problem was complicated by the fleeing nationalists who "... shipped all specie and other moveable assets they could lay their hands on to Taiwan."\(^{13}\)

\^{13}\text{Lewin, pp. 10-13.}
Thus, when the Communists took over in 1949, they inherited a war-torn, bankrupt, basically agrarian economy. Not only had industry been devastated by 12 years of war, but the Russians had carried off $895 million worth of plant from Manchuria, the main center of industry.\(^\text{14}\)

The Communists were faced with a dilemma: being Chinese, their policies included maintenance of the territorial integrity and national security of China, as well as the restoration of China to its "rightful" place in the world area. It was not likely that these goals could be achieved without industrialization, and it was unlikely that industrialization could be achieved without foreign assistance. Being both Chinese and Communist, they had little desire to deal with the former "imperialist" powers.

Thus, Mao preferred to "lean to one side," although he implied he wanted "to do business." He

stated:

"When we have been beaten the internal and external reactionaries by uniting all domestic and international forces, we shall be able to do business and establish diplomatic relations with all foreign countries on the basis of equality, mutual benefit and mutual respect for territorial integrity and sovereignty."  

Whatever Mao's preferences, it is not likely much dealing could have been done with the West. With the establishment of the People's Republic of China, the United States imposed certain trade controls. As a result of the outbreak of the Korean War, all members of the North Atlantic Treaty Organization (except Iceland) and Japan embargoed trade in "strategic" goods

with China.\textsuperscript{16} By mid-1951, moreover, most non-Communist members of the United Nations had complied with a General Assembly recommendation that all nations embargo "strategic" goods to China. Thus, while the Communist bloc only provided about 20 percent of China's imports in 1950, by 1952, the situation had changed.\textsuperscript{17}

Alexander Eckstein divides the economy and foreign trade of the People's Republic of China since its inception into two contrasting periods, each roughly a decade in length.

This contrast is so sharp and so pervasive, effecting virtually all sectors of the economy—including foreign trade—that if one examined the performance indicators for the two decades without any advance knowledge as to what era they refer to, it could easily be concluded that these two data relate to two entirely separate economies in two different countries.\textsuperscript{18}

The first decade, of course, is the period of intensive Sino-Soviet trade. The second marks a change both in the direction and composition of Chinese trade

\textsuperscript{16}John R. Garson, "The American Trade Embargo Against China", in Eckstein ed., Trade, pp. 7-9. The NATO embargo will be discussed in detail below.

\textsuperscript{17}Lewin, p. 31.

\textsuperscript{18}Eckstein, "Introduction", in Eckstein, ed., Trade, p. XIV.
due to the failure of the Great Leap Forward and due to the Sino-Soviet dispute. It is possible to posit a third decade, as well, beginning with President Nixon's first steps to normalize relations in 1969.


Within China itself, Eckstein's first period can be further broken down into Rehabilitation of the Economy, 1949-1952; the First Five Year Plan, 1953-1957; and the Great Leap Forward, 1958-1960.

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Soviet assistance to China during the rehabilitation period ranged from concrete trade and aid to more abstract encouragement and advice as to how a planned economy should be planned. Initial agreements include the formation of four joint stockholding companies. Two were involved in non-ferrous metals and petroleum refining in Sinkiang, the third was a commercial airline and the fourth was a shipyard at Dairen. The Soviets agreed to the construction and reconstruction of 50 enterprises. In addition, the Chinese were given credits in the amount of $300 million, to be available in five equal installments. The USSR was to deliver heavy industry in that amount between 1950 and 1954, and China was to repay, with 1 percent interest, over the period 1954-1963, in gold, US dollars, or raw materials, including tea.

By 1952, the Chinese announced they had reached their goal for rehabilitation of the economy: achievement of the "prewar peak". This "peak" was evidently the sum of production of China proper for 1936 and of
By this time, the USSR had delivered $1.4 billion worth of consumer and capital goods to China of which about 22 percent was equipment and machines, 12 percent ferrous and nonferrous metals, and 6 percent petroleum and by-products. Chinese exports to the USSR during the same period amounted to $936 million. Food, foodstuffs and animal raw materials composed about 52 percent of the total, while nonferrous and alloy metals and concentrates amounted to another 15 percent. The Soviet share of China's foreign trade rose from 27 percent in 1950 to 51 percent in 1952. Trade with other Communist countries rose from 2 percent to 18 percent in the same period.

During 1952, China was also able to conclude its first trade agreement outside the Communist sphere.


21 Cheng, pp. 57-59.

22 Chen and Galenson, p. 207.
The treaty was with Ceylon and bartered Ceylonese rubber for Chinese rice. The agreement, renewable at five year intervals, remains in force, as a good business arrangement for both countries. "And China has never attempted to exert direct political influence on Ceylon, in spite of Peking's ability to do so...."23

China's First Five-Year Plan put great emphasis on the development of heavy industry. Soviet aid was once again crucial. An additional 91 projects were pledged in 1953 and 15 more in 1954. Of this total 156 enterprises, 7 were in the iron and steel industry, and 15 in nonferrous metals. Twenty-four electric power stations were contracted as well as 63 enterprises in the machinery industry and 27 in coal.  

The importance of these enterprises to the Five-Year Plan may be appreciated by the following: the capital investment for these 156 projects and projects directly in support of them amounted to $5.36 billion, or about 51.5 percent of capital investment in industry in the Plan.  

Additional projects were pledged by the Soviets during the terms of the First Five-Year Plan. Fifty-five projects, valued at $625 million, were announced in 1956, bringing the total of Soviet commitments to

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25 Ibid., p. 43. See also Chen and Galenson, p. 42.
211 projects. By the end of 1957, as a result of mergers, cancellations, etc., the total number of projects pledged was 166.26

Chinese successes in the industrial sector were impressive. Taking 1952 as the base year, the output of modern industry by 1957 had increased 141 percent using official indices, or on the order of 100 percent using more conservative Western estimates.27 Agricultural output, on the other hand, had received less emphasis, and had increased only 25 percent, using official figures, or under 10 percent, using Western figures.28 The available food grain per capita, due to population increases, had actually gone down 3 to 5 percent.29

Soviet exports to China over the period 1953-1957 amounted to nearly $3.5 billion of which equipment and machines amounted to 34 percent; ferrous and non-ferrous metals 12 percent; and petroleum and by-products, another 12 percent. China exported to the USSR about

26Cheng, p. 28.
27Chen and Galenson, pp. 56-57.
28Ibid., p. 89.
29Ibid., p. 131.
$3.2 billion, of which food and foodstuffs as well as animal raw materials still amounted to about 44 percent, and nonferrous and alloy metals and concentrates, about 20 percent. Evidence that industrialization was taking hold was apparent, however. By 1954, the USSR had stopped shipping cotton cloth to China. From 1953 to 1957 Chinese exports of textile manufactured goods to the USSR increased nine times in value, and that category's share of total exports rose from 4 percent to 15 percent.  

But the Soviet Union's, as well as the rest of the Communist world's, share of Chinese trade had dropped slightly, to 43 and 21 percent, respectively. China had begun to feel dissatisfaction with her major trading partner. Some of the dissatisfaction was ideological, stemming from Krushchev's adoption of "peaceful coexistence" policies in 1956. Other dissatisfaction was of an economic nature. For instance, the USSR required the Chinese to repay the debt for military aid received during the Korean War. The amount of debt was reported as $802 million, and payments may have been

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30 Cheng, pp. 61-63.
31 Chen and Galenson, p. 207.
scheduled over the period 1954-1963.\textsuperscript{32}

Chinese debt to the Soviet Union had been further aggravated by a loan for unspecified purposes in 1953 of $116 million, the extension of another line of credit worth $130 million in 1954, as well as the cost of assuming the Soviet shares in the four joint stock companies,\textsuperscript{33} and a military loan associated with the transfer of the naval base at Port Arthur in 1955. These loans are estimated at $185 and $703 million respectively.\textsuperscript{34}

Further, the terms of trade, which had been established and generally held at 1950 price levels benefited China up to 1953, but began to benefit the USSR as world prices dropped after the Korean War. There was also criticism of the quality of Soviet machinery.\textsuperscript{35}

\textsuperscript{32}Mah, Trade, p. 152. Each student of this period apparently has his pet figure for this amount, and reserves the right to change his mind. Other figures include: $506 billion, Eckstein, Growth, p. 157; $743 million, Cheng, p. 80; and an earlier estimate by Mah of $1.1 billion, in Remer, ed., p. 82.

\textsuperscript{33}See p. 15.

\textsuperscript{34}Cheng, pp. 81 and 82. The caveat given in 32 above applies here as well. References are the same, except Mah's most current figures will be found in Trade, p. 153.

\textsuperscript{35}See Cheng, pp. 69-72.
Further, Western restrictions on trade were loosening. In 1949, the NATO countries (less Iceland) and Japan had formed a Coordinating Committee to embargo trade in certain "strategic" goods with the USSR and the East European Communist countries. It will be recalled that China was added to the group of embargoed countries in 1950. The list of embargoed goods put together by the Coordinating Committee - the Cocom list - is not generally available to the public but is said to have included about 160 categories of product.

In September 1952, at US behest, a China Committee was formed of the same countries. The special list created for China and North Korea - the Chincom list - may have embargoed twice as many commodities as the Cocom list, creating the "China differential." Indeed, the lists were minimum lists and many countries, notably the United States and Japan embargoes more items, although Japan lowered its list to the Chincom level in 1954.

In August 1954 the Cocom list was shortened, while the Chincom list remained intact, further widening the "China differential," and placing China in a position where she could buy an embargoed item through the USSR, if she were willing to pay the extra freight
and other charges. In May 1957, however, Britain re-
duced its list to the Cocom level, and the other mem-
ers, with the exception of the United States, soon
followed suit. Prohibitions by the United States on the
trade of foreign subsidiaries of American firms, on the
re-exportation of US products or of products using US
technical data, among others, still applied, however.\(^\text{36}\)

To be sure, there had been a modicum of trade
in non-strategic goods between China and the non-Commu-
nist countries over the years. From 1950 to 1957
Chinese exports to these customers averaged $509 mil-
lion a year, while imports averaged $384 million.\(^\text{37}\)

It is worthwhile to note that during this period
Hong Kong received 31 percent of these Chinese exports
while accounting for 29 percent of her imports. This
latter figure is heavily biased, however, due to re-ex-
ports from Hong Kong to China in pre-Chincom years.
During the Chincom years, the amount of Hong Kong's im-
ports to China was reduced to 16 percent.\(^\text{38}\)

\(^{36}\text{Garson in Eckstein, ed., Trade, pp. 60-66.}\)
\(^{38}\text{Ibid.}\)
During this period, Hong Kong (and to a lesser extent, Singapore and Malaysia) began to assume an importance to China's foreign trade that continues to this day. Hong Kong is a major source of foreign exchange for China and enables China to carry on a triangular trade, securing exchange from Hong Kong in order to buy products from countries where there is little demand for Chinese commodities. As the subject is well documented, only the highlights need be discussed here. First, China is Hong Kong's prime supplier of food. Second, Hong Kong is the site of many enterprises owned both by Communist sympathizers and by the Peoples Republic of China itself, including department stores, and at least 13 banks. Thirdly, these banks handle remittances sent from overseas Chinese to their families remaining on the mainland. As a measure of Hong Kong's trade with China, in 1957 China gained a $158 million surplus on a turnover of $206 million. Thus, remittances are estimated to have been on the order of another $50 million.

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39 Ibid., p. 288.
40 Mah, Trade, pp. 244-245. For a more complete discussion of Hong Kong's role, see Colina Macdougall Lupton, "Hong Kong's Role in Sino-Western Trade", in Stahnke, ed., pp. 175-208. Also see Eckstein, Growth, pp. 196-200.
politically Hong Kong remains a vestige of imperialism in China, but economically China prefers to let well enough alone.

Moreover, China began to let it be known that she was looking for new partners. At the Eighth Congress of the Chinese Communist Party in 1956, there had been hints as to the possibility of more trade with capitalist countries. "Chou En-lai went so far as to speculate on the contribution of international trade, including that with 'other countries' to the development of China by meeting one another's supply and demand." 41

Feelers to that effect had been put out by the Chinese and by West German "old China hands" as early as 1952, 42 by the Japanese in 1953, 43 and by Canada in the late '50's. 44

THE GREAT LEAP

The First Five-Year Plan, of course, had been built on the Soviet model, and featured capital intensive industrialization to the detriment of the agricultural sectors and light industry. Those sectors, as a result, did not develop apace. In the Chinese situation, this was particularly critical. Not only must the people be fed, but agriculture supplied raw materials to industry as well as forming a sizeable portion of the export trade. As Soviet lines of credit had expired and payments were due, exports had to take up the slack, and the problem was compounded.

A Second Five-Year Plan was still-born as the leadership sought to break this bottleneck and continue industrialization as well as increase agricultural output without diverting investment to agriculture. Unemployed and underemployed rural populace was to be mobilized to work on labor-intensive irrigation and reclamation projects, to raise yields, and to expand small scale industry. Economic management was to be decentralized so that "economic development from below" through the "spontaneous initiative of the masses" could
take place. Industrial output during the Great Leap was to increase 25 percent per year. Agricultural goals are not readily available, but were apparently on the order of 8 percent increase per year.

Official reports indicate agricultural output doubled in 1958, a good harvest year. Yet it is likely that highest management was deluded by faulty reporting at intermediate levels, and the increase may have been closer to 10-12 percent or less. Some land was taken out of production as a result of rosy claims and higher targets were issued for 1959.

The next two years were bad weather years. As a result of this factor as well as bad planning and management, the Chinese found themselves in the midst of a food crisis. The Great Leap, at least with respect to agriculture, had flopped. Industrial output began to drop due to shortages in raw materials, as well as loss in worker efficiency due to poorer diet.

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45 Eckstein, Growth, p. 36.

46 Ibid., p. 61. I have inferred that 100 percent increase was planned over a period of 12 years. Lewin, p. 21 gives the 1958 plan as 6 percent increase over 1957.

47 Mah, Trade, p. 98. See also Eckstein, Growth, p. 64.
To top matters off, although the Russians had apparently supported the Great Leap, and although 1959 represents the highest year of trade between the two countries, by mid-1960 disputes between the two countries had come to a head and Russia withdrew her technicians from China. Of the 291 projects the Soviets had pledged, only 130 had been completed. Of 100 projects undertaken by East European nations, only 66 were completed.\footnote{Kenneth D. Gott, "China's Foreign Trade Policies and Practices", in Patrick M. Boarman, ed., Trade With China: Assessments by Leading Businessmen and Scholars, Praeger Special Studies in International Economics and Development, (New York: Praeger Publishers, 1974), p. 95.}

Economic relations between the two countries did not terminate in 1960, although machinery imports dropped 95 percent between 1959 and 1962. Indeed, in 1961, the Soviet Union allowed China to refinance the debt service over a five year period in the amount of $320 million. A $46 million loan to buy Cuban sugar was also advanced, to be repaid between 1964 and 1967 in an equal amount of raw sugar. But China cut the last contractual bonds when it was announced that foreign debts (i.e. to the USSR) would be paid off in 1965.
Since 1956, China had built up a trade surplus vis-à-vis the USSR, and with the drop in imports in 1961, it is likely these debts were indeed paid off, although not without some financial difficulty, as will be seen shortly.

Data for the final years of intensive Sino-Soviet trade will be found in Table 1 and Table 2.

The Soviet Union and the Communist countries still retained the lion's share of Chinese trade. However, this percentage did drop from a high of 69.5 percent in 1959 to 57.2 percent in 1962. Russia's share dropped even more dramatically: from 47.3 percent to 27.2 percent over the same years.\(^\text{49}\) It should also be pointed out that while the USSR's trade was still important to China, China's share of the USSR's trade decreased from 19.5 percent in 1959 to 6 percent in 1962.\(^\text{50}\)

\(^{49}\) Dernberger, in Eckstein, ed., \textit{Trade}, p. 305.

\(^{50}\) Eckstein, \textit{Growth}, p. 146.
### TABLE 1
SOVIET EXPORTS TO CHINA

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<td></td>
<td>$</td>
<td>%</td>
<td>$</td>
<td>%</td>
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</tr>
<tr>
<td>TOTAL</td>
<td>634</td>
<td>100</td>
<td>954.5</td>
<td>100</td>
<td>817.1</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>MACHINERY</td>
<td>318</td>
<td>50.2</td>
<td>597.5</td>
<td>62.6</td>
<td>503.9</td>
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<td>PETROLEUM</td>
<td>92.4</td>
<td>14.5</td>
<td>117.7</td>
<td>12.3</td>
<td>113.1</td>
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<td>FERROUS METALS</td>
<td>60.9</td>
<td>9.6</td>
<td>48.0</td>
<td>5.0</td>
<td>59.3</td>
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Source: Cheng, p. 64

### TABLE 2
CHINESE EXPORTS TO USSR

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<tr>
<td></td>
<td>$</td>
<td>%</td>
<td>$</td>
<td>%</td>
<td>$</td>
</tr>
<tr>
<td>TOTAL</td>
<td>881.2</td>
<td>100</td>
<td>1100.3</td>
<td>100</td>
<td>848.1</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FOOD</td>
<td>230.1</td>
<td>26.1</td>
<td>219.1</td>
<td>19.9</td>
<td>127.9</td>
</tr>
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<td>CONSUMER GOODS</td>
<td>251.2</td>
<td>28.5</td>
<td>424.0</td>
<td>38.5</td>
<td>389.0</td>
</tr>
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</table>

Source: Cheng, p. 66
The abandonment of the Chincom list by Western European powers, as well as Japan, and the planning of the Great Leap in China dovetailed together nicely and created a short-lived boom in Western Europe. West Germany, in particular, was able to increase its exports to China from about $48 million in 1957 to $162 million in 1958, largely by virtue of large orders for steel plate and tube. Over the same period, the exports of the United Kingdom, France, Italy and the Benelux countries doubled, or nearly so. Western Europe's exports to China increased, as a whole, from $231 million in 1957 to $444 million in 1958. Of this amount, iron and steel increased from $17 million to $165 million.

As a result of these large orders, China's trade with the Western European countries, which had shown tidy surpluses since 1950, began to go into the red. China's exports to Europe amounted to little more than

51 Lewin, pp. 54, 100-101.
52 Ibid., p. 56.
$140 million in 1957 and about $185 million in 1958.53

Meanwhile, Japan had been carrying on a small trade with China since the Korean armistice. On turnovers averaging $113 million per year from 1954 to 1958, the Chinese had benefited by an average $23 million per year.54 The composition of trade was generally Japanese fertilizers, iron and steel, and machinery for Chinese soy beans, other agricultural products and pig iron.55

There are indicators that Japan was to receive a share in the Great Leap purchases. Negotiations were concluded in April, 1958 for Japanese steel plate, sheet and tubes against Chinese coal and iron ore. In May, however, a Japanese worker ripped down a Red Chinese flag in Nagasaki and China cancelled all deals and recalled trade missions. In a rare instance of mixing business with politics, the Chinese attempted to use the incident to cause the fall of the Kishi government in favor of one that would recognize the People's Republic, and sever relations with Taiwan.56

53Ibid., pp. 104-105.
54Eckstein, Growth, p. 203.
55Lewin, p. 59.
56Ibid., p. 60. West Germany apparently benefited from the cancellation of the steel contract. p. 54.
When this attempt failed, China mounted a major trade offensive to take away Japanese markets in Southeast Asia. This attempt also failed when the Chinese could not meet their commitments. "In effect, this failure meant that the economy of mainland China had not yet reached a stage of development where the Chinese could at short notice and with impunity conduct economic warfare on such a large scale."\(^{57}\)

Chastened by the failure of the Great Leap, the Chinese established a new policy of balanced growth which was articulated by Chou En-lai in the spring of 1962. Agriculture and consumer goods were to receive a higher share of investment, and heavy industry in support of agriculture, especially the chemical fertilizer industry, was to receive emphasis. Further, moves were to be made to reduce China's dependence on imports of strategic goods as well as to reduce the dependence of consumer goods industries on agricultural raw materials.

But first, the people must be fed. China was forced to buy nearly two million metric tons of wheat (in addition to other grains, mainly barley) in the

\(^{57}\)Eckstein, Growth, p. 5.
consumption year June 1960 to July 1961, 4 million in 1961/1962, and 4.8 million in 1962/1963. These purchases, on the order of 5 million tons per year during poor harvest years, continue to this day. Main suppliers at the time were Australia and Canada.

These wheat purchases put China in a trade imbalance with the two countries. The total deficit with Australia amounted to $428 million on a turnover of $494 million for 1961-1963. Similarly, the deficit with Canada was $343 million on a turnover of $367 million.

As a result of these and other imbalances in current and capital account, and despite an $855 million surplus in trade with Hong Kong, Singapore and Malaysia, China sold $115 million worth of silver on the European market between 1960 and 1962. A sale of $1.2 million worth of gold on the London market in 1961 was also reported.

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58 Eckstein, Trade, p. 227.
59 Mah, Trade, p. 27.
60 Ibid., p. 26.
61 Eckstein, Growth, p. 219.
62 Lewin, p. 41.
It appears that by 1963, however, the Chinese leaders' confidence, both in the internal economy as well as their ability to deal with new partners, had solidified. Lu Hsu-chang, vice-Minister of Foreign Trade visited Britain, Switzerland and the Netherlands, as well as Hong Kong. The results of his negotiations confirmed the new Chinese policies. By the beginning of 1964, six complete plants were purchased: a fertilizer plant each from Britain and the Netherlands, two fertilizer plants and petroleum refinery from Italy, and an alcohol plant from France.\(^63\)

Deals were closed from Japan for a synthetic fiber plant. By 1963, China's trade with Japan had returned to 1957 levels, i.e. before the Chinese had attempted to topple the Kishi government by withholding trade.\(^64\)

Further, in 1963, the non-Communist world overtook the Communist world in share of China's world trade 55 percent to 45 percent. By 1965, the non-Communist countries were accounting for 70 percent of China's trade and the USSR's share had fallen to 11

\(^{63}\)Ibid., p. 53.

\(^{64}\)Eckstein, Growth, p. 203.
percent.  

Although China had not reached her 1959 level of trade of approximately $4.4 billion, and was not able to do so until 1971, by 1965 she had reached a plateau of about $3.9 billion. As she remained stalled on that plateau until 1970, mainly due to the Cultural Revolution, and the nature of her foreign trade did not change appreciably until the US relaxed its embargo, 1965 is a convenient year to conclude this study. China's principal customers in 1965 are shown in Table 3.

By 1965, despite industrialization, 38 percent of China's exports were foodstuffs and another 8 percent other agricultural products. Thanks to industrialization, however, 22 percent of exports were textile yarns and fabrics. Imports did not show the imbalance they did during the hey-day of Sino-Soviet trade: 14 percent foodstuffs, mostly cereals; 11 percent raw textile fibers; 14 percent metals; 14 percent chemicals; and 13 percent machinery and equipment. Significantly, by 1965 mineral fuel imports had reached an insignificant

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65 Chen and Galenson, p. 211.
66 Ibid., pp. 308-311.
## TABLE 3

**PRINCIPLE NON-COMMUNIST PARTNERS - 1965**

<table>
<thead>
<tr>
<th>Country</th>
<th>Chinese Exports $ Million</th>
<th>%</th>
<th>Chinese Exports $ Million</th>
<th>%</th>
<th>As % of total Chinese Exports</th>
<th>Chinese Imports</th>
</tr>
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<tbody>
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<td>100</td>
<td>1292</td>
<td>100</td>
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<td></td>
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<td>28</td>
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<td>10</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>Japan</td>
<td>225</td>
<td>15</td>
<td>245</td>
<td>19</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>United Kingdom</td>
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<td>6</td>
<td>72</td>
<td>6</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>W. Germany</td>
<td>73</td>
<td>5</td>
<td>79</td>
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<td>3</td>
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</tr>
<tr>
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<td>2</td>
<td>165</td>
<td>13</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Canada</td>
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<td>1</td>
<td>97</td>
<td>8</td>
<td>1</td>
<td>5</td>
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<tr>
<td>Benelux, France, Netherlands, Italy</td>
<td>122</td>
<td>8</td>
<td>152</td>
<td>12</td>
<td>6</td>
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level. China had reached self-sufficiency in that area.
CONCLUSION

China's foreign trade, while instrumental in the industrialization, albeit incomplete, of that country, has increased its dependence on other countries, and has deprived China of some foreign policy tools. We have seen that the very nature of the economy of the People's Republic of China, as well as factors such as weather and other natural phenomena dictate the amount and composition of trade: what must be imported and what can be exported. The direction of trade is determined by who has what is needed and who is willing to trade.

A loose comparison with the Treaty Port system can be drawn in that system also dictated with whom China could trade. However, the People's Republic of China has been deprived of a tactic available to earlier regimes. The earlier dynasties could play "barbarian against barbarian", Russians against British, British against Japanese, etc., but first the US-led embargo and then the Sino-Soviet dispute determined in the main who the trading partners must be, if China was to trade at all.
Further, while the trade of her partners is important to China, the trade of China is less important to her partners. With the exception of Hong Kong, which got 26 percent of its imports from China in 1965, and Japan, whose trade with China amounted to 3 percent of its overall trade in the same year, most other partners depended upon China for less than 1 percent of their trade. Thus China was deprived of other foreign policy tools, embargo and boycott. Other than a single blatant attempt to influence the internal affairs of a major trading partner (Japan in 1958) which failed, China has not attempted to use these tools.

Moreover, there is little evidence to indicate that foreign trade aided in the simplest of the People's Republic China's foreign policy aims, diplomatic recognition as the government of China. To be sure, the majority of China's trading partners in 1965 had granted recognition. However, most of these had granted recognition upon or shortly after Communist accession in 1949, and the following important partners had not by 1965: Italy, West Germany, Australia, Japan, Singapore,

Malaysia, Argentina, and Canada.\textsuperscript{70}

By 1974, all of the above but Singapore had accorded diplomatic recognition to the People's Republic of China, not as a result of China's foreign trade but rather as a result of the overall alignment in the international arena that took place after the Cultural Revolution. This realignment resulted from overtures from the People's Republic of China to be sure, but also from overtures from other world powers, not the least of which was the United States.

Thus, while China had solved the dilemma of being dependent upon a single country, she continues to be dependent upon a number of others. A nation once used to receiving tribute remains beholden to the "barbarian" world industrial development.

Since China emerged from the Cultural Revolution, her foreign trade continues an apparent reflection of the policy articulated by Chou En-lai in 1962.\textsuperscript{71}

From 1965 to 1973 (the latest complete figures avail-

\textsuperscript{70} Based on the criterion that each provided more than 1 percent of China's total turnover in 1965. The aggregate of these countries' trade with China was 31 percent.

\textsuperscript{71} See pg. 33.
able), the Chinese attempted to maintain a balanced trade from year to year and did fairly well, accumulating a balance of $700 million on a turnover of about $44 billion in that nine year period. However, the 1973 figures show about $100 million deficit on a turnover of $9.8 billion and preliminary figures for 1974 suggest a deficit of $1.1 billion on a turnover of $13.7 billion.

The commodity composition of China's trade approximated that of 1965. In addition about 17 percent of China's trade in 1973 was with Communist countries. Only 2 percent of China's trade was with the USSR, amounting to a balanced turnover of $270 million.\(^2\)

By contrast, China's trade with the US in 1973 amounted to $804 million, according to Eckstein. China showed a deficit of $676 million on this trade and a deficit of $796 million on a $935 million turnover with the US in 1974.\(^3\) China's dilemma remains.

\(^{2}\)CIA, pp. 56-57.

APPENDIX

The accompanying table is derived from Robert F. Dernberger's tables which are appended to his contribution in Cohen, Dernberger, and Garson, *China Trade Prospects and U.S. Policy*. Dernberger was used, not because I placed more credibility in him than other sources, but because his tables are the only ones available which cover the entire period under question. Other sources do differ, to a greater or lesser extent, especially for the era when China's trade was predominantly with the Soviet Union.

These differences have in the main, to do with interpretations of Chinese and Soviet statistics, fuzzy at best, as well as the exchange rates used by the two countries. One Soviet ruble was equal to one Chinese yuan for trade purposes, yet via-a-vis the dollar, the two currencies were given as 4:1 and 2.3+:1.

Further, as trade increased with non-Communist countries, a problem arises with their reporting. Some countries included Mainland China and Taiwan in their reports, other Mainland China, Hong Kong and Macao, and still others Hong Kong and Macao. Thus the numbers are
inprecise, though all indicate the same trends, and where other sources give specific data, especially as to commodity composition, which I could not refer to by Dernberger's tables, or in the case of a direct quote, I have used the other sources.

The three sample years in the accompanying table were used for the following reasons: 1952 was the point at which the Chinese said they had reached a pre-war peak, 1959 was the year in which China had the highest trade (until the US relaxed its embargo) and 1965 is the end-year of this study.
TABLE 4

CHINA'S FOREIGN TRADE SELECTED YEARS  
(\$ MILLION)

<table>
<thead>
<tr>
<th>Year</th>
<th>CHINESE EXPORTS</th>
<th>CHINESE IMPORTS</th>
<th>CHINESE EXPORTS</th>
<th>CHINESE IMPORTS</th>
<th>CHINESE EXPORTS</th>
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<td>1965</td>
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<td>1965</td>
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COMMUNISTS

ALBANIA

BULGARIA

CZECHOSLOVAKIA

E. GERMANY

HUNGARY

N. KOREA, N. VIETNAM, MONGOLIA

POLAND

RUMANIA

SOVIET UNION

YUGOSLAVIA

SUBTOTAL

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### TABLE 4 (continued)

**CHINA'S FOREIGN TRADE SELECTED YEARS**

($ MILLION)

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TABLE 4 (continued)

CHINA'S FOREIGN TRADE SELECTED YEARS
($ MILLION)

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NOTES:

--- NO TRADE
( ) ESTIMATE
N.A. NOT AVAILABLE

a. GREECE, ICELAND, IRELAND, PORTUGAL, SPAIN, TURKEY
b. LAOS, PHILIPPINES, SARAWAK, THAILAND, SOUTH VIETNAM
c. ADEN, AFGHANISTAN, ISRAEL, JORDAN, LEBANON
d. BELGIAN CONGO, CAMEROUN, CENTRAL AFRICAN REPUBLIC, CHAD, CONGO (B), DAHOMEY,
   ETHIOPIA, GABON, GAMBIA, GUINEA, KENYA, LIBYA, MALAGASY REPUBLIC, MALAWI,
   MAURITANIA, MOZAMBIQUE, NIGER, RHODESIA AND NYASALAND, RWANDA, SIERRA LEONE,
   TOGO, TUNISIA, ZAMBIA, MAURITIUS, REUNION
e. BOLIVIA, DOMINICAN REPUBLIC, ECUADOR, EL SALVADOR, GUYANA, HAITI, JAMAICA,
   NETHERLANDS ANTILLES, PANAMA, PERU, SURINAM, TRINIDAD AND TOBAGO, URUGUAY,
   VENEZUELA
f. ENGLISH AND FRENCH OVERSEAS TERRITORIES

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BIBLIOGRAPHY


