

FOREIGN TRADE OF THE PEOPLE'S REPUBLIC OF CHINA

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B. S., Kansas State University, 1970

A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

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MASTER OF SCIENCE

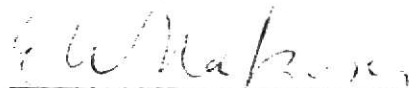
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Manhattan, Kansas

1972

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INTRODUCTION

Karl Marx and Friedrich Engels published the *Communism Manifesto* in 1848,¹ condemning free enterprise and urging the workers of the world to unite against capitalism. Twenty years later, Marx's Das Kapital presented an interpretation of history which predicted the establishment of a society far different from anything which had existed up to that time.

Communism was not new in concept. Writers such as Plato had envisioned various utopias where the total needs of man were the responsibilities of the state. Marx began the first systemized construction of communist theory. He not only dreamed of a workers paradise, he believed that the natural course of history would bring about the creation of this utopia.

Marx died in 1883, but his ideas were not forgotten. The Russian Revolution of 1917 brought into power a government which was dedicated to the establishment of world-wide Communism. World War II caused several East-European countries to come under the influence of Communism, and in 1949, the Nationalist Chinese were driven from the mainland, leaving that country under the control of the Chinese Communist Party. During the period 1917-1949 governments representing one third of the world's population adopted the communist ideology.

¹Samuel H. Beer, ed. The Communist Manifesto (New York: Appleton-Century-Crafts, Inc., 1955), p. 1.

Two characteristics of Communism exert influence on foreign commercial relations: central planning and the maintenance of an antagonistic position vis-a-vis capitalism. The existence of central planning and a high degree of political motivation, imply that trade between a capitalist and a socialist country cannot occur under the same conditions as trade between two capitalist countries.

The People's Republic of China (PRC) is a socialist country, has instituted central planning and maintains an antagonistic position towards capitalism. Close ties with the Soviet Union during the period 1949-1960, a Western imposed embargo, and the question of the existence of two Chinese governments has caused the PRC to be relatively isolated from the Western world.

In recent months, the PRC has accepted a seat in the United Nations and received de facto recognition from the United States. These developments have caused speculation that closer ties between the PRC and the West are forthcoming.

It is the purpose of this study to isolate and analyze the factors influencing the direction, composition and motivation of the external trade of the PRC.

Available economic information concerning the PRC is not entirely adequate. The Chinese Communists have chosen to be secretive about the operation of the economy; therefore information must be gathered in an indirect manner. Chinese news broadcasts, newspapers, interviews with refugees, and reports from foreign correspondents stationed in Peking, contribute a large volume of information of questionable reliability.

This lack of reliability is partially due to government control of the news media, and the political need to show economic progress; and partially due to the nature of the PRC economic situation. The statistical network of the PRC suffers from lack of trained personnel, extreme difficulty in gathering data, and political pressure for quota fulfillment. The State Statistical Bureau was established in 1952, but its work was discontinued in 1958 as statistical reporting became a political weapon. The first and only statistical manual, Ten Great Years, was published in 1959, and contained little information concerning external trade, being inadequate for the purposes of this paper. Statistical reporting again broke down during the Cultural Revolution, 1966-1969, as numerous economic experts were purged.

Lack of adequate economic information is due to a security conscious government, general disorganization of the statistical apparatus, and the need to show economic success. Data concerning external trade is probably recorded in fairly complete detail as the state maintains a monopoly in this area. However, due to the secrecy with which the government operates, this information has not been made available outside the PRC. Therefore, this report is based on secondary sources, primarily the research of Western scholars.

CHAPTER I

PEOPLE'S REPUBLIC OF CHINA

History of Communism in China

A series of events beginning during the Manchu dynasty caused the most populous nation in the world to become socialistic. The Manchu were invaders from the north, ruling from 1644-1911. China was an ancient civilization, and the Chinese people regarded their culture as supreme.

Chinese culture incorporated many philosophies, the most influential being Confucianism. Confucius lived and wrote from 551-479 BC. His teachings were not important during his lifetime; during the Manchu dynasty, however, Chinese life was largely governed by Confucianism.

Confucius saw government as a problem in ethics. If a ruler conducted himself in a proper manner, then his ministers would follow this example. When the people were well treated by the ministers, these people would be obedient, and all would be right with the world. Inferior people were to give loyalty to their superiors, and the superiors were to deserve this loyalty by honest discharge of their duties, and benevolence toward their inferiors.¹

Scholars, officials, and peasants looked backward on their centuries of greatness and saw no need for change. China regarded herself as supreme and saw all others as barbarians.

¹Loren Fessler, ed. China (New York: Time Incorporated, 1963), p. 30.

Western nations shattered this superior-inferior conception. They refused to accept the inferior position, and believed that the Chinese were the barbarians. Social and technological revolution in the West created great numbers of traders and missionaries, eager for markets and converts. Western traders forced their way into China, infringed upon her sovereignty and refused to obey her laws. Missionaries attempting to bring the white man's way of life to the Chinese created antagonism in the countryside.

Chinese problems had always been solved by reliance on philosophy and reference to the Chinese Classics. In the past, invaders had been absorbed by the Chinese and had rarely brought about permanent change. Philosophy and the Classics gave no answers to the problem of this foreign invasion. The technology of the West rendered the Chinese militarily helpless, and Western culture was not being absorbed, but was causing disruption within Chinese society. The traditional institutions could not cope with this Western incursion.¹

Initially the Manchu regime refused diplomatic relations with the West and hampered their trading activities. Foreigners were restricted to small enclaves in coastal cities, and could deal only with a government trading monopoly.

Opium smuggling provided the first major incident of friction between Western nations and the Manchu regime. Due to the growing number of Chinese opium addicts, smuggling opium from India into China had become a highly profitable business. The Manchu government issued an edict

¹Ibid., 33.

banning opium trade, and ordered the Chinese official Lin Tse-hsu to act against the trade in Central China. Lin surrounded the foreign enclave in Canton with troops, and forced the traders to surrender \$11 million worth of raw opium. The traders vigorously complained to the British Government, demanding the protection of British troops and trade concessions from China.

In the summer of 1842, the British troops moved up the Yangtze River toward Nanking. The Chinese army was unable to stop the British, and the Manchu were forced to grant British demands. Britain received the island of Hong Kong and trade concessions in the port cities of Canton, Amoy, Foochow, Ningpo, and Shanghai.

The Chinese were becoming increasingly disillusioned with the Manchu regime and its inability to cope with the foreigners. The T'ai P'ing Rebellion, 1853-1864, was a manifestation of this discontent.

Capitalizing upon the weakness of China, Japan used military power to acquire Taiwan, the Pescadores and part of Manchuria, while forcing China to grant independence to Korea. France, Russia, Germany, and Britain further infringed upon Chinese sovereignty, stationing troops and refusing to recognize Chinese law, while carving out spheres of influence.

The Boxer Rebellion in 1900 was a popular expression of protest against foreign domination. Receiving de facto support from the Manchu regime, the Boxers killed missionaries in the countryside and then laid siege to the foreign legation in Peking. The rebellion was crushed by Western troops from seven nations and heavy reparations were imposed upon China.

It had become quite clear to the Chinese that the Manchu government was no longer capable of rule. The once strong and proud country was weak, and divided among various warlords and foreign armies. An uprising occurred which spread and became a revolution. The Manchu rulers abdicated and went into exile in 1911.

This abdication ended 250 years of Manchu dynasty and marked the beginning of the Chinese search for a different socio-economic system.

Democracy was the first form of government with which the Chinese experimented. Sun Yat-sen, leader of the Chinese Kuomintang Party, was sworn in as the first president of the Republic of China on January 1, 1912.

Foreign domination and poverty were China's most important problems. The vast majority of Chinese lived in rural areas under conditions of abject poverty. Chinese agriculture could be described as primitive. About 50 per cent of the farmers owned their land. The peasants suffered from floods, droughts, poor communications, inefficient transportation, uneconomic land tenure, high cost of credit, unequitable taxes and the lack of machines and fertilizer.¹

The cost of credit was as high as 200 per cent, and rent averaged 50-60 per cent of the annual crop. It was not unusual to have local war lords collect tax payments 20-30 years in advance. Between famine, flood, disease, oppressive taxation and conscription into the armies, 50 per cent of the population died before they reached the age of 28.

Sun Yat-sen was sincerely interested in helping the Chinese peasant, but he accomplished little as his administration lasted 43 days. He had

¹Frank H. H. King, Concise Economic History of Modern China (New York: Bookman Associates, 1956), p. 59.

no army to support his reforms, and he was compelled to allow Yuan Shik-k'ai to assume the office.

Yuan did not have the ideals of Sun and his regime was characterized by terror tactics and dictatorial rule.¹ His efforts to unify China were largely unsuccessful. He died in 1916 and was succeeded by numerous presidents, none of whom unified China or implemented major reforms.

It was during this period that the Chinese Communist Party (CCP) was founded. The Manchu regime had proved incapable of coping with the problems of poverty and foreign domination and certain Chinese had now become convinced that democracy did not offer the solution. These Chinese believed that unless they developed a government which could unify the country and eliminate poverty, China would cease to exist as a nation. Their Confucian background caused them to look for a system of government which was strong enough to maintain order and protect its people, but also one which would not exploit those people, a government deserving loyalty and devotion from its subjects.² They wished to unite the country, end foreign domination, eliminate poverty, and restore China to a position deserving of respect.

The CCP was founded on July 1, 1921 in the city of Shanghai. Twelve delegates, including Mao Tse-tung, attended this First National Congress. They represented the 57 members to the Party. It was decided here that the fundamental task of the CCP was to fight for the dictatorship of the proletariat³ but the CCP built its popular support on the issue of land

¹Maurice J. Meisner, Li Ta-Chao and the Origins of Chinese Marxism (Cambridge, Massachusetts: Harvard University Press, 1967), p. 10.

²Ibid., 6-7

³John Wilson Lewis, Major Doctrines of Communist China (New York: W. W. Norton and Company, Inc., 1964), pp. 20-21.

reform. Using the Sun Yat-sen's slogan "land to the tiller" the Communists recruited soldiers from among the millions of landless Chinese peasants.

Sun Yat-sen, leader of the Kuomintang Party, died in 1925. Leadership of the Party was assumed by a Japanese trained army officer, Chiang Kai-shek. Chiang distinguished himself in military operations against Northern warlords and became president in 1928. He was committed to implementing Sun's reforms, but achieved no major successes. Corruption within the government drained needed resources, and alienated the population. The CCP and the government of the Kuomintang Party established several short coalitions, but neither party trusted the other. On April 12, 1927, Chiang attempted to destroy the CCP but was only partially successful. The survivors fled into the hills and began reorganizing.

Chiang was able to unite China by gaining the allegiance of the most powerful war lords. Japan began to fear a resurgent China and started expanding their holdings in Manchuria.

Chiang adopted a policy of passive resistance toward Japanese aggression believing that the more important conflict was the ideological difference with the Communists. Chiang allowed the Japanese to conquer increasingly larger sections of Northeast China while concentrating his military operations against the Communist guerillas.

The refusal to resist Japan, and the corruption of the Kuomintang Government caused increasing discontent among the Chinese people. By the time the Allies defeated Japan in 1945, popular support for the Communists had become widespread and Chinese soldiers began defecting to the Communist armies. By 1949, the Communists were assured of victory, and proclaimed the existence of the People's Republic of China in November of that year.

Communism

Communism is an interpretation of history based on the concept that the means of production and distribution form the basis for all political and social relationships.¹

Karl Marx is credited with the first extensive development of Communist theory. He believed there were four major stages of socio-economic development; feudalism, capitalism, socialism, and communism.

Feudalism was characterized by a few large land-owners, and many poor peasants. The productivity of the peasants was so near the subsistence level that wealth accumulation occurred at a very slow rate. Productivity began to increase due to expanding technology and a resulting division of labor. This division of labor created two new classes; the class that engaged in manual labor, and the class that directed that labor.

Capitalism, the second stage of development, is so named because of the emergence of this labor directing and wealth accumulating class, the capitalist. This capitalist class was initially progressive, but became very reactionary after they had attained power, and established a political structure to maintain their position. This structure included; property laws, courts, armies, police and prisons.² Wages paid the laborers were sufficient only to maintain the existence of that class.³ Surplus value was defined as the difference between the value added by the worker and the subsistence wage. This surplus value was retained by the capitalists and used to increase their power.

¹Friedrich Engels, Nicolas Lenin, Karl Marx, The Essential Left (New York: Barnes and Noble, Inc., 1968), p. 12.

²Clemens Dutt, Fundamentals of Marxism Leninism (Moscow: Foreign Languages Publishing House, 1968), p. 156-157.

³Ibid., 153.

Communism argues that the value added by the worker should belong to the worker and describes the existence of surplus value as exploitation, taking through the market or by legal force that which is not yours.¹

The outstanding characteristic of capitalism is the accumulation of wealth and the resulting antagonistic distribution of income. Technology was continuously replacing men with machines, creating an army of unemployed workers maintaining wages at a subsistence level.

As capitalism develops, the difference between the property owning class and the worker becomes more distinct. At some point, the workers can no longer tolerate the situation and rise up and destroy the capitalist class. All private property is abolished as the state now owns the means of production and distribution.

State ownership of the means of production and distribution is the major characteristic of the third stage of socio-economic development, socialism. The Communists believe that by abolishing private property, exploitation, class differences, and all the other evils of a capitalist society will disappear.² Socialism is a transitional period during which the people will achieve economic progress, but more importantly, the individual members of society must be re-educated.

Economically, socialism is intended to liberate man from dependence on the productive processes. Through collectivization, man will become master of nature and production.

Individual managers will still strive to maximize profits, but these profits will go to the people as a whole. Since prices of factors and output are fixed by the state, the only way to increase profit is to achieve

¹P.J.D. Wiles, Communist International Economics (Oxford: Basil Blackwell, 1968), p. 9.

²Anne Fremantle, ed. Communism: Basic Writings (New York and Toronto: New American Library, 1970), p. 195.

greater physical efficiency. An enterprise increases profit by producing a greater than planned output with the allocated input. Part of this profit goes to the state, the rest goes for the welfare of the workers at that particular enterprise.¹ Communism does not object to the maximization of profit, but to the unequal distribution of those profits.² Consistent with this is the idea that income must be based on work performed rather than capital owned.

During socialism, the minds of the people will have been remolded in the spirit of humanism and love of labor. Education will have eliminated the distinction between manual and intellectual labor as the abolition of private property has eliminated the evils of human life. The armies, prisons, courts and police will no longer be needed since there will be no exploitation.³

When the people have been sufficiently educated, the productive processes sufficiently advanced, and the whole world converted to socialism, a society of pure Communism will occur.

The state apparatus which exists under Communism does not coerce human beings, but rather administers the production and distribution of goods and services.⁴ The state has assumed responsibility for the material needs of man. The worker need no longer worry about wages and prices since there are no wages, prices or money.

¹Oskar Richard Lange, Essays on Economic Planning (Calcutta: Statistical Publishing Society, 1967), p. 18.

²Shanti S. Tangri, Command vs Demand (Boston: D. C. Heath and Company, 1967), p. 102.

³Joseph M. Bochenske, Gerhart Neimeyer, ed. Handbook on Communism (New York: Frederick A. Praeger, 1962), pp. 61-63.

⁴Dutt, Fundamentals of Marxism Leninism, p. 309.

Each person performs his function because he derives satisfaction from his work. He takes pride in the work itself, and also in the idea that he is contributing to society as a whole. The state provides for the necessities of life as well as whatever is needed for the cultural development of the individual. The opportunity to obtain whatever is needed from public stocks eliminates worry and has a wholesome effect on the individual.¹ People themselves will be sufficiently cultured and conscious that they will not make unreasonable demands on society.

This Communist society will have become so rich that it can satisfy the highest wants of the people, but not so irrational as to waste labor and public wealth.² The change in the nature of man's thought and the elimination of exploitation will bring forth a burst of creativeness and brilliance, and allow workers to perform functions for which trained engineers and technicians are required today. Labor will become a free voluntary matter. It will be performed because of habit and the personal satisfaction derived.

The supreme goal of Communism is to allow the full development of the human personality. They believe this can best be accomplished in a society with these characteristics: classless, public ownership of production, a highly cultured and conscious population, and operating on the principle of payment according to need and work according to ability. Under this type of society, the worker will joyfully perform four to five hours of work per day, then devote the rest of his time to the development of his personality.³

¹Ibid., 205.

²Dutt, Fundamentals of Marxism Leninism, p. 707.

³Ibid., 703-704.

Chinese Communism is the adaptation of Marxist-Leninist theory to the reality of China. Mao Tse-tung, Chairman of the Chinese Communist Party, sees Communism as a complete social system with proletarian ideology, and believes that capitalism will become a museum piece in history, regardless of man's will.¹ Maoists hold that the socialist state must be strong to allow the people to remold themselves and eliminate all capitalistic tendencies. Only those who accept Marxism-Leninism are allowed freedom under socialism. Within the framework of Marxism-Leninism, individual incentive is promoted.

Chinese Communist ideology includes raising the level of material welfare, but only within the context of development of the human being. Economic development is not acceptable unless everyone benefits equally.² Maoists believe that the mind of man is the most decisive force in history, and the emphasis of development is placed upon this force.

The Chinese Economy

Socialism, public ownership of the means of production and distribution, is the determining economic characteristic of the People's Republic of China (PRC). Industry, banking and foreign commerce have been nationalized; some of the farmers belong to state farms, the rest to collectives. These nationalized institutions are directed by a central plan.³

The Chinese adopted the Soviet model of central planning because it was ideologically acceptable, they had no workable alternative, and they

¹Mao Tse-tung, Quotations from Chairman Mao Tse-tung (Peking: Foreign Languages Press, 1965), p. 23-24.

²John W. Gurley, "Maoist Economic Development: The New Man in the New China," Review of Radical Political Economics, II, No. 4 (Winter 1970), p. 27.

³Jan S. Prybyla, The Political Economy of Communist China (Scranton, Pennsylvania: International Textbook Company, 1970), p. 116.

had reason to expect Soviet aid. Implementation of the plan supposedly began in 1953; however, the plan was not approved by the Chinese Communist Party until April 1955, and then underwent extensive revision in 1956. Characteristics of the plan included: rapid growth of output, selective growth under conditions of austerity, sectoral disproportionality, internal consistency violations, and continuous adjustment.¹

The method is described as two-way vertical planning. The Committee on Financial and Economic Affairs (CFEA) issues directives and control figures to central economic ministries and regional economic organs. These organizations issue directives and control figures to peripheral units and these peripheral units draft plans that are then coordinated with central and regional economic organs, and then with the CFEA.²

Planned economic development is governed by six broad principles. First, the growth rate of the consumer goods industry shall be exceeded by the growth rate of the capital goods industry. Second, development of the capital goods industry must allow reproduction on an extended scale. Third, the consumer goods industry must develop at a rate equal to the increase in purchasing power of the population. Fourth, agriculture shall endeavor to supply adequate supplies of grain and industrial raw materials while augmenting the agricultural surplus with which to finance industrialization. Fifth, capital accumulation shall be ensured by the rate of productivity growth being greater than the growth of wages. Sixth, the location of new industrial centers shall be close to raw materials and natural resources.³

¹Ibid., 110-114.

²Ronald Hsia, Economic Planning in Communist China (New York: Institute of Pacific Relations, 1955), p. 11.

³Ibid., 29-30.

Foreign trade decisions are made with reference to the central plan. This plan determines needed imports and the state trading office makes price comparisons among potential suppliers. These comparisons may be superceded by political and economic requirements. Payment for imports is the principle reason for exportation, although political motives may be involved. Foreign currencies are needed to service loans, and support diplomatic missions, propaganda, and foreign aid programs.¹

A state monopoly in foreign trade is maintained through the Foreign Trade Control Office (FTCO). This FTCO has the power to validate or cancel any trade agreement and to determine selling price. State trading corporations are subordinated to the FTCO, each specializing in a certain commodity. Trade fairs serve as the mechanism for negotiation. Between 1950 and 1965, twenty-five economic exhibitions were held inside the PRC, while Chinese trade delegations participated in sixty-seven trade fairs in forty countries.²

Basic differences exist between the motivation and direction of the foreign trade of Western and socialist countries. Western countries have no clearly defined ideological attitude toward trade with socialist countries. These countries generally accept the idea that trade is entrusted to the market mechanism, and should be conducted in the pursuance of private interests. Socialist countries inject non-economic factors into foreign trade. Prices in Western countries are determined by the market mechanism, reflecting supply, demand and factor cost.

¹Wu Yuan-li, The Economy of Communist China (New York: Washington, London: Frederick A. Parager, 1965), p. 170-172.

²Prybyla, The Political Economy of Communist China, p. 406.

Socialist prices are centrally determined, and do not necessarily reflect cost or allocate resources. Socialist foreign trade is conducted through state trading monopolies, while individual businessmen carry on Western trade.¹

The major difficulty confronting Chinese central planners is the lack of economic data. The nature of central planning demands accurate data concerning industrial capacity, availability of raw materials, utilization of existing equipment, efficiency of labor and availability of human resources.² The almost total absence of such data indicates that the plan was largely based on the performance of previous years.³

Central planning, however imperfectly instituted, was discarded and replaced by inspirational slogans during the Great Leap Forward, 1958-1960. By going to the masses for help, tasks set forth in the First Five Year Plan were to be carried out more rapidly. Decision-making was largely decentralized as local cadre were called upon to take the initiative.⁴ This Great Leap Forward was not economically successful and some degree of decision making was reassumed by the central government. The PRC supposedly began its Second Five Year Plan in 1958, but this was discontinued by the Great Leap Forward. The Third Five Year Plan was washed away by the Cultural Revolution in 1966, and the Fourth Five Year Plan

¹Jozef Wilczynski, The Economics and Politics of East West Trade (New York, Washington: Frederick A. Praeger, 1969), p. 21-22.

²Hsia, Economic Planning in Communist China, pp. 12-13.

³Ibid., 59.

⁴Prybyla, The Political Economy of Communist China, pp. 257-258.

began in January of 1970. Normal economic growth under five year plans is characterized by periodic political disruption.¹

Decision making is decentralized to some extent, but decisions regarding investment, allocation of factors of production, and prices are made by the central government.² The central government directs the controlling sectors of the economy while allowing decentralization in other sectors. Self-sufficiency in food and light industry is the target of each hsien, or county, under a PRC program of diversification and decentralization.³

¹China News Analysis, Number 734, (November 22, 1968), 310.

²John W. Gurley "Maoist Economic Development: The New Man in the New China," Review of Radical Political Economics, II, No. 4 (Winter 1970), p. 26.

³Tillman Durdin, James Reston, Seymour Topping, Report From Red China (New York: Avon Books, 1971), p. 214.

CHAPTER II

INFLUENCE OF CENTRAL PLANNING ON EXTERNAL TRADE

Autarky

Autarky, economic self-sufficiency, has desirable traits for underdeveloped countries with central planning. Central planning is based on the assumption that all sectors of the economy respond to directives from the center. Foreign trade is not well integrated with central planning since the trading partners are not necessarily subject to these commands. When trading with a market-type economy, there is no guarantee of fulfilling the export quota. A sovereign country with a market-type economy cannot be directed to purchase certain quantities of commodities at stipulated prices. If the planned economy produces a product for which there is no demand, there will be no sale, and no forthcoming increase in foreign currency reserves. Imports are not normally subject to this problem, unless there exists a maximum employment of resources in the other trading countries. Any mistake in price estimation will cause a change in the next year's import-export plan. External trade with another centrally planned economy presents a different type of problem. Sale of exports is fairly certain since they are needed for plan fulfillment in the other country, but tight planning may make delivery of imports uncertain.¹ "This planners

¹Wiles, Communist International Economics, p. 447.

tension is a normal feature of the model."¹ Projects have to be built quickly in an atmosphere of impatience and hurry. Targets are set which cannot reasonably be achieved with the allocated resources. Extra effort and ingenuity are called for to reach goals, resulting in underfulfillment of objectives.²

Uncertainty with regard to imports and exports cause disruption within the domestic economy and may cause planners to attempt to increase self-sufficiency.

Another cause of economic disruption results from fluctuation in world market prices of primary commodities. Under-developed countries tend to be characterized as countries which export agricultural commodities and basic raw materials, using the earnings from exports to finance development. If the prices of these exports fluctuates or decrease, this can cause wave-like disruptions of planning and retard growth.³ From 1953-1961, prices of major agricultural commodities varied an average of eight per cent from year to year. The maximum variation was 22.3 per cent for cocoa, the minimum being 2.7 per cent for bananas.⁴ Several causes can be cited for producing this phenomenon. Low income elasticities of supply and demand cause world commodity prices to be erratic. Changes in demand in industrial countries cause violent price changes,

¹Prybyla, The Political Economy of Communist China, p. 115.

²Ibid.

³Alan A. Brown, Egon Neuberger, ed. International Trade and Central Planning (Berkley and Los Angeles: University of California Press, 1968), p. 177.

⁴Franklin R. Root, Roland L. Kramer, Maurice Y. d'Arlin, International Trade and Finance (Burlingame, California: South-Western Publishing House, 1966), p. 443.

since supply is relatively fixed in the short run, and consumption shows little response to price changes. Industrialized countries, normally major importers of basic commodities, may protect domestic producers from foreign competition. Examples of this are import quotas in the United States on beef, petroleum, lead and zinc; and similar restrictions in the European Economic Community on Coal, butter and other commodities. The risk involved from specialization in the export of basic commodities is quite apparent. Changes in demand, initiation of trade restrictions, or the introduction of substitutes such as artificial rubber or synthetic fiber could quickly reduce or eliminate foreign exchange earnings.

The PRC increased its imports by 41 per cent, and exports by 94 per cent during the period 1952-1963, Table 1.

TABLE 1
VALUE AND DIRECTION OF COMMUNIST CHINA'S FOREIGN TRADE
1952-1963
(In Millions of U.S. Dollars)

Year	Communist Countries		Non Communist Countries		Total	
	Exports	Imports	Exports	Imports	Exports	Imports
1952	581	707	290.3	183.4	871	890
1953	685	914	353.3	193.3	1039	1107
1954	815	1039	304.2	219.8	1119	1260
1955	929	1035	415.8	285.5	1345	1321
1956	1066	1057	546.0	408.2	1612	1465
1957	1077	883	537.3	508.3	1615	1391
1958	1270	1119	641.4	742.4	1911	1865
1959	1589	1359	632.0	651.4	2221	2011
1960	1302	1242	698.4	636.8	2010	1912
1961	900	675	588.0	647.4	1571	1414
1962	853	461	647.1	589.3	1597	1139
1963	766	425	712.3	698.6	1699	1271

Source: Alexander Eckstein, Communist China's Economic Growth and Foreign Trade, (New York, Toronto, London: McGraw Hill Book Company, 1966), pp. 94-95.

Raw and processed agricultural products contributed 69.8 per cent of total exports in 1964. Even more significantly, this figure represents a decline of only 3.6 per cent from 1953, Table 2.

The above cited statistics imply that the PRC may not be troubled by the problems of uncertain trade and price fluctuations. Dwight Perkins argues that the fluctuating price of primary commodities is not a serious problem from the PRC since it is not dependent on only one or two commodities.¹ Foreign exchange was earned from the export of a variety of commodities thus decreasing the difficulty caused by changing prices, Table 3.

TABLE 3

MAJOR COMMODITIES SHARE IN EXPORTS OF COMMUNIST CHINA
(Percentages)

Commodity	1956
Oil seeds	12.2
Textile manufactures	11.4
Cereals	9.6
Metals	6.9
Meat and fish	8.8
Raw textile fibers	7.4
Ores	6.6
Other	<u>37.1</u>
Total	100.0

Source: Alan A. Brown and Egon Neuberger, ed.
International Trade and Central Planning
(Berkley and Los Angeles: University of
California Press, 1968), p. 195.

¹Brown and Neuberger, ed. International Trade and Central Planning, p. 194.

TABLE 2

THE COMMODITY COMPOSITION OF COMMUNIST CHINA'S FOREIGN TRADE, 1953-1964
(Percentages)

Commodity Type	1953	1954	1955	1956
Exports:				
I. Raw, semi-processed, & processed foodstuffs	50.0	49.6	45.5	40.4
II. Animal & vegetable materials, oils & fats	9.8	8.7	14.1	13.6
III. Textile fibers, yarns, & fabrics	13.6	14.0	16.6	18.3
X-1, (I, II, & III) raw & processed agricultural products	73.4	72.3	76.2	72.3
IV. Minerals, mineral fuels, metals, ores, & mineral & metal manufactures	12.5	12.9	17.1	16.2
V. Chemicals	3.5	3.1	2.1	3.2
VI. Machinery & equipment	...	...	1.1	0.8
VII. Manufactured goods	1.8	1.4	2.0	2.9
X-2 (IV, V, VI, & VII) mining & industrial products	17.8	17.4	22.3	23.1
X-3 (VIII) not specified	8.9	10.3	1.5	4.6
Imports:				
I. Raw, semi-processed, & processed foodstuffs	0.1	0.1	0.1	0.5
VII. Manufactured goods	3.2	1.6	3.3	4.7
M-1. Consumer goods and end products				5.2
II. Animal & vegetable materials, oils & fats including: rubber	6.2	5.4	3.9	4.6
	(n.a.)	(n.a.)	(3.0)	(4.2)
III. Textile fibers, yarn, & fabrics	3.8	3.9	7.0	5.8
IV. Minerals, mineral fuels, metals, ores, & mineral manufactures	16.7	16.9	14.6	18.6
V. Chemicals	8.9	11.2	9.4	9.2
	(n.a.)	(n.a.)	(4.0)	(5.2)
Including: manufactured fertilizer				
M-2 (II, III, IV, & V) producers' goods - raw materials	35.6	37.4	34.9	38.2
M-3 (VI) prod. goods - mach. & equip.	19.7	21.4	23.7	30.2
M-4 (VIII) not specified	41.6	39.6	38.0	26.3

Vulnerability of PRC export earnings was increased by the rising share of cotton textiles in the total. This vulnerability was caused by potential loss of markets to competition rather than price fluctuations.¹

Bilateral Trade and Payments Agreements

Bilateral trade and payment agreements allow the PRC to cope with the problems of uncertainty and price fluctuations. Negotiation of these agreements involves an understanding of quantity, before selling or purchase price is determined. Physical availability is determined by the central plan, then trading delegations meet to settle prices.² The value of imports and exports between two partner countries is balanced annually, the excesses being financed by swing credit.³

Bilateralism offers several advantages to a socialist country. Orthodox Marxian thought holds that unbalanced trade is a form of non-equivalent exchange, resulting in exploitation of the weaker by the stronger. Just trade occurs with equal exchange of commodities. Bilateralism simplifies the planning process by allowing planners to make agreements in advance with regard to imports and exports, while minimizing the need for currency transactions. This process also allows socialist countries to use the level of imports to facilitate exports, otherwise capitalist markets may not provide buyers for socialist products. Bilateral trade can also be used as a weapon of economic and political coercion.⁴

¹Ibid.

²Wiles, Communist International Economics, p. 159.

³Wilczynski, The Economics and Politics of East West Trade, p. 203.

⁴Ibid., 204-205.

Disadvantages of bilateral trade and payments agreements may offset the advantages. Instability is a common characteristic of bilateral agreements between two socialist nations. Apparently central planning does not attach a high priority to meeting agreement targets. Negotiation of long term agreements and the annual protocol is expensive, especially in terms of limited personnel. Bilateral agreements are inflexible and cannot be used to alleviate shortages in the domestic economy. Also they may degenerate into an instrument of economic and political pressure.¹

Since 1949, all PRC trade with other socialist countries has involved trade and payments agreements.² From 1950-1962, only 22 per cent of total trade with non-communist countries was conducted under bilateral trade agreements.³ The PRC has signed bilateral trade agreements with numerous non-communist countries, or private delegations from these countries, but the signing of an agreement does not necessarily imply the actual exchange of commodities,⁴ Table 4.

Leading Sector Development

Theoretically, an underdeveloped country could concentrate on one export industry, using the foreign exchange earnings of that product to finance imports or the development of other sectors. Conditions to the success of this development are: relative stability in the foreign earnings of that export and development of an export industry, the inputs of

¹Ibid., 206-207.

²Wiles, Communist International Economics, p. 211.

³Brown and Neuberger, ed. International Trade and Central Planning, p. 211.

⁴Wu, The Economy of Communist China, p. 185.

TABLE 4

COMMUNIST CHINA'S TRADE AND PAYMENTS AGREEMENTS WITH NON-COMMUNIST COUNTRIES

Country	Date Signed	1953	'54	'55	'56	'57	'58	'59	'60	'61	'62	'63	'64	'65
1. Ceylon	10/ 4/52	. . .X	X	X	X	X	X	X	X	X	X	X	X	X
2. Indonesia	11/30/53	. . . . .	X	X	X	X	X	X	X	X	X	X	X	X
3. Burma	4/22/54	. . . . .	X	X	X	X	X	X	X	X	X	X	X	X
4. India	10/14/54	. . . . .	. . . . .	X	X	X	X	X	X	X	X	X	X	X
5. Egypt (U.A.R.)	9/25/68	. . . . .	. . . . .	. . . . .	X	X	X	X	X	X	X	X	X	X
6. Syria	8/22/55	. . . . .	. . . . .	. . . . .	X	X	X	X	X	X	X	X	X	X
7. Cambodia	11/30/55	. . . . .	. . . . .	. . . . .	X	X	X	X	X	X	X	X	X	X
8. Afghanistan	4/24/56	. . . . .	. . . . .	. . . . .	. . . . .	X	X	X	X	X	X	X	X	X
9. Tunisia	7/28/57	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X	X	X	X	X	X	X
10. Morocco	5/23/62	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X	X	X	X	X	X	X
11. Iraq	10/27/58	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X	X	X	X	X	X	X
12. Guinea	1/ 3/59	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X	X	X	X	X
13. Mali	9/13/60	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X	X	X	X	X
14. Ghana	2/28/61	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X	X	X	X
15. Sudan	8/18/61	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X	X	X	X
16. Pakistan	1/ 5/63	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X	X	X
17. Somali	5/15/63	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X	X	X
18. Congo (Brazvle.)	7/23/64	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X
19. Algeria	9/19/64	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X
20. Central African Republic	9/29/64	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X
21. Burundi	10/22/64	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X
22. Kenya	12/18/64	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X
23. Tanzania	2/10/65	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	X

Source: Brown and Neuberger, International Trade and Central Planning, p. 212.

which can be produced domestically.

The PRC textile industry was the most developed of all industries in the pre-communist period. This industry was rapidly expanded, using a low ratio of investment per worker and domestically produced machinery. Government tax returns from this industry were a major source of finance for investment in heavy industry. The large increase in exports of textile yarns and fabrics in 1959 was directly related to the Soviet agreement to increase the purchase of PRC textiles to permit the PRC to meet export obligations to the Soviet Union.¹ Textile exports, as a percentage of total exports, show important increases in the period 1955-1963. Increasing from 17.1 per cent of the total in 1955 to 30.7 per cent of the total in 1963, textile exports were used to pay for machinery, equipment and complete plants imported from the Soviet Union, Table 5. From 1950 to April of 1956, the PRC and the Soviet Union concluded agreements for the construction of 211 industrial and transportation facilities. Mergers later reduced this number to 166.² The Treaty of Friendship gave \$300 million worth of aid from the Soviet Union.³

The Sino-Soviet dispute has caused important changes in trade. The USSR, and East European countries under its influence, have curtailed trade relations with the PRC. To obtain needed material and equipment, The PRC has turned to Western Europe and Japan for trade.⁴ During the

¹Brown and Neuberger, ed. International Trade and Central Planning, p. 232-233.

²Prybyla, The Political Economy of Communist China, p. 217.

³Moreton Horsley, China's Way to Communism (London: Ampersand Ltd., 1968), p. 23.

⁴Lu Chang, "The Development of External Trade of New China," Union Research Service Vol. 36, No. 21, (September 11, 1964), pp. 310-314.

TABLE 5

COMMODITY COMPOSITION OF COMMUNIST CHINA'S EXPORTS, 1955-63^a
(In Millions of U.S. Dollars and in Per Cent)

	1955		1956		1957		1958	
	Value	%	Value	%	Value	%	Value	%
TOTAL EXPORTS	1,130.6	100.0	1,405.6	100.0	1,361.6	100.0	1,637.0	100.0
Soybeans, oilseeds, and products	196.2	17.4	195.7	13.9	145.3	10.7	127.9	7.8
Cereals	88.6	7.8	129.3	9.2	59.3	4.4	147.9	9.0
Livestock products								
Edible	140.9	12.5	138.0	9.8	115.1	8.5	178.8	10.9
Inedible	50.3	4.4	49.5	3.5	38.8	2.8	47.3	2.9
Fruits and vegetables	59.3	5.2	65.0	4.6	82.9	6.1	91.9	5.6
Tea	36.5	3.2	36.5	2.6	35.8	2.6	45.0	2.7
Tobacco	24.5	2.2	31.9	2.3	42.9	3.2	33.7	2.1
Textiles								
Raw materials	90.6	8.0	101.3	7.2	86.6	6.4	64.5	3.9
Fabrics	85.3	7.5	149.4	10.6	180.4	13.2	200.2	12.2
Clothing and footwear	18.6	1.6	37.9	2.7	66.9	4.9	153.5	9.4
Industrial fats and oils	10.3	0.9	39.2	2.8	32.6	2.4	32.2	2.0
Building materials	6.6	0.6	12.1	0.9	20.2	1.5	22.6	1.4
Chemical products	23.4	2.1	41.4	2.9	38.2	2.8	52.4	3.2
Metals, metal ores and concentrates	148.8	13.2	171.6	12.2	166.5	12.2	171.4	10.5
Non-metallic minerals	21.3	1.9	36.7	2.6	44.5	3.3	27.8	1.7
Machinery and equipment	11.8	1.0	11.7	0.8	9.2	0.7	11.4	0.7
Other	117.6	10.4	158.4	11.3	196.4	14.4	228.5	14.0

^aExcludes Eastern Europe, Cuba, and Asian Communist countries, for which commodity breakdowns are not available.

TABLE 5 — Continued.

	1959		1960		1961		1962		1963	
	Value	%	Value	%	Value	%	Value	%	Value	%
TOTAL EXPORTS	1,793.7	100.0	1,614.8	100.0	1,195.2	100.0	1,208.9	100.0	1,234.9	100.0
Soybeans, oilseeds, and products	158.6	8.8	122.9	7.6	34.3	2.9	36.9	3.1	38.3	3.1
Cereals	176.5	9.8	129.5	8.0	28.7	2.4	39.9	3.3	58.8	4.8
Livestock products										
Edible	110.7	6.2	80.7	5.0	36.2	3.0	47.0	3.9	75.9	6.1
Inedible	48.3	2.7	50.0	3.1	28.2	2.4	23.5	1.9	40.2	3.3
Fruits and vegetables	83.9	4.7	69.6	4.3	41.2	3.4	48.2	4.0	60.3	4.9
Tea	41.2	2.3	35.0	2.2	22.9	1.9	20.5	1.7	20.0	1.6
Tobacco	31.6	1.8	13.9	0.9	4.5	0.4	1.5	0.1	2.1	0.2
Textiles										
Raw materials	127.4	7.1	101.4	6.3	56.2	4.7	41.6	3.4	52.8	4.3
Fabrics	269.2	15.0	305.7	18.9	272.9	22.8	263.0	21.8	252.2	20.4
Clothing and footwear	254.4	14.2	248.5	15.4	206.5	17.3	217.9	18.0	197.2	16.0
Industrial fats and oils	23.2	1.3	27.2	1.7	9.4	0.8	10.3	0.9	9.4	0.8
Building materials	12.7	0.7	13.1	0.8	13.4	1.1	14.8	1.2	23.2	1.9
Chemical products	34.3	1.9	32.2	2.0	23.5	2.0	25.5	2.1	31.7	2.6
Metals, metal ores and concentrates	161.7	9.0	154.5	9.6	130.5	10.9	112.5	9.3	70.8	5.7
Non-metallic minerals	19.1	1.1	18.2	1.1	10.8	0.9	19.0	1.6	17.0	1.4
Machinery and equipment	21.9	1.2	7.3	0.5	4.9	0.4	14.5	1.2	18.0	1.5
Other	219.0	12.2	205.1	12.7	271.1	22.7	272.3	22.5	267.0	21.0

Note: This series combines data for Soviet imports f.o.b. at the Chinese border and data for non-Communist world imports c.i.f. It was not possible to adjust these data to take account of re exports.

Source: Alexander Eckstein, Communist China's Economic Growth and Foreign Trade, p. 114.

period 1961-1964, complete plants were purchased from Japan, Finland, Britain, West Germany, Sweden, Austria, Netherlands, and Italy. A total of thirteen plants were purchased and financed on credit up to five years in duration.¹ Since the relaxation of the embargo in 1964, the PRC has purchased at least forty plants from other countries.²

The arguments for autarky have little economic appeal to the PRC. Agricultural exports are sufficiently diversified to alleviate the adverse effects of price fluctuations, although textile exports may be vulnerable to competition. Uncertainty with regard to delivery of exports and sales of imports can be mitigated through bilateral agreements with Western nations, but problems caused by planners tension cannot be solved through these agreements. A leading sector type of development demands the importation of equipment and machinery, indicating increasing trade until a certain level of development is attained.

¹Prybyla, The Political Economy of Communist China, p. 408.

²Wilczynski, The Economics and Politics of East West Trade, p. 287.

CHAPTER III

TRADE IMPLICATIONS OF COMMUNISM AND ITS ANTAGONISTIC POSITION TOWARDS CAPITALISM

Foreign trade is primarily used to facilitate economic development, although communist ideology may cause trade to be motivated by political considerations. Communism would seem to indicate two positions with regard to external trade. A policy of autarky would be necessary in some instances, as the PRC would not wish to become economically dependent on any country it thought to be unfriendly.¹ The opposite policy of trade expansion would be adopted by the PRC in dealing with neutral or pro-communist countries. One of the basic concepts of communism is that socialist countries should help spread the ideology throughout the world.² Economic leverage through trade can be an important political tool.

Autarky

Economic dependence upon Western trade would place the PRC at a severe disadvantage during a period of military or economic conflict. Furthermore, this disadvantage would also exist if the PRC were dependent on trade with neutral, or pro-communist countries through vulnerable transportation routes. In view of the current Sino-Soviet dispute, the Soviet-bloc could be included with Western nations in the list of unfriendly

¹Liu Shao-chi, Ten Glorious Years (Peking: Foreign Languages Publishing House, 1960), p. 120.

²Wilczynski, The Economics and Politics of East West Trade, p. 28.

countries. The most effective defense against economic disruption through trade is to be independent of trade. If the PRC expects a long term ideological dispute, and a resulting economic and military struggle, they would attempt to become economically self-sufficient.

Initially, the PRC external trade was highly dependent upon other socialist countries for both exports and imports. Imports from socialist countries constituted an average of 76.2 per cent of total imports for the period 1952-1960. Exports to socialist countries averaged 67.7 per cent of the total for the same period. This percentage for imports declined by 17.3 per cent, 1960-1961, with the majority of this decrease attributable to the Soviet Union. Exports to other socialist countries showed marked, but less distinct declines, Table 6.

Table 7 shows that the decrease in total trade with the Soviet-bloc was redistributed among: the Asian-bloc, Europe, South America, and other Asian countries. Imports from Europe and the developed Asian country of Japan was largely composed of industrial goods. Chemicals, manufactured goods, machinery and transport equipment comprised the majority of PRC imports from these countries, Table 8.

PRC trade policy appears to include the importation of equipment and machinery to achieve more rapid development. When the ideological split with the Soviet Union halted aid from that country, the PRC turned to the West. It should be noted that Chinese intervention in the Korean conflict resulted in a United Nations resolution condemning the Chinese action and placing an embargo on trade with that country. It is possible that the PRC would have always traded more with Western nations if this embargo had not been imposed.

TABLE 6

DIRECTION OF COMMUNIST CHINA'S FOREIGN TRADE, 1952-63, ADJUSTED
(In Per Cent)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
Imports												
Communist countries,												
Total	79.4	82.6	82.5	78.3	72.2	63.5	60.0	67.6	65.0	47.7	40.5	33.5
Soviet Union	62.2	63.0	60.2	56.6	50.0	39.1	34.0	47.4	42.7	25.9	20.5	14.3
Eastern Europe	(16.1)	(18.0)	(19.8)	17.9	18.0	(20.4)	22.0	16.2	17.8	11.6	6.8	(6.9)
Asian Communist												
countries	(1.1)	1.6	2.4	3.8	4.1	(4.0)	(4.0)	(4.0)	(4.4)	(10.2)	(13.2)	(12.2)
Cuba	—	—	0.1	negl.	—	—	0.2	negl.	1.7	6.5	7.8	
Non-Communist countries,												
Total	20.6	17.5	17.4	21.6	27.9	36.5	39.8	32.4	33.4	45.8	51.7	66.5
Exports												
Communist countries,												
Total	66.7	66.0	72.8	69.1	66.1	66.7	66.5	71.5	64.7	57.2	53.4	45.1
Soviet Union	47.8	45.8	51.7	47.8	47.4	45.7	46.1	49.5	42.2	34.9	32.3	24.2
Eastern Europe	(16.9)	(17.6)	(17.2)	17.2	14.7	(15.4)	15.4	15.9	15.7	10.4	9.2	(9.1)
Asian Communist												
countries	(2.1)	2.6	4.0	4.1	4.0	(5.6)	(5.0)	(6.1)	(6.9)	(11.9)	(11.9)	(11.8)
Cuba	—	—	—	—	—	—	—	—	0.5	5.3	6.1	
Non-Communist countries,												
Total	33.3	34.0	27.2	30.9	33.8	33.3	33.5	28.5	34.7	37.5	40.5	54.9

Notes: Figures in parentheses are partially or wholly estimated by the author.

— stands for "none."

negl. stands for "negligible."

Source: Alexander Eckstein, Communist China's Economic Growth and Foreign Trade, p. 98.

TABLE 7

THE DIRECTION OF COMMUNIST CHINA'S FOREIGN TRADE, 1950-1964^a
(Percentages)

Item	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
^b															
A. Communist countries															
Chinese exports	33.7	46.5	65.5	65.9	75.9	72.7	70.4	70.5	70.2	75.7	70.5	67.3	64.4	57.3	47.4
Chinese imports	53.5	58.6	75.8	80.6	73.6	82.2	77.0	69.8	66.1	73.9	72.4	59.6	52.2	43.8	38.2
Total trade	44.9	53.0	71.0	73.7	80.1	77.2	73.4	70.1	68.5	74.8	71.4	63.8	59.6	51.9	43.7
B. Non-Communist countries															
Chinese exports	66.4	53.5	34.4	34.2	24.1	27.3	29.9	29.5	29.5	24.3	29.5	32.7	35.6	42.7	52.6
Chinese imports	46.5	41.5	24.2	19.0	16.3	17.8	22.8	30.2	33.9	26.1	27.6	40.4	47.8	56.2	61.8
Total trade	55.2	47.2	29.2	26.4	20.0	22.5	26.6	29.8	31.5	25.2	28.6	36.2	40.4	48.1	56.3
Percentages of Communist China's total trade															
1. Soviet Union	42.2	53.0	63.9	61.0	57.1	54.6	52.3	46.7	44.0	53.2	46.9	36.1	32.5	25.9	17.7
2. European bloc	0.6	na	7.1	12.7	19.2	18.9	17.8	19.6	20.4	17.7	18.5	12.9	9.8	9.2	9.4
3. Asian bloc	na	na	na	na	3.8	3.7	3.5	3.9	4.1	4.0	4.8	7.3	9.0	9.7	9.8
4. Europe	8.7	10.5	5.1	8.4	5.8	6.8	8.9	10.1	13.4	11.8	12.9	10.7	10.4	11.1	12.6
5. North America	12.2	12.2	1.4	0.4	0.1	0.1	0.2	0.2	0.3	0.1	0.3	3.5	4.4	3.1	3.8
6. Southeast Asia	7.2	9.8	9.8	5.9	5.1	5.1	6.1	6.4	6.4	6.3	6.5	7.1	8.0	9.7	8.6
7. Other Asia	25.6	23.5	12.0	10.7	7.8	8.6	9.2	10.0	8.6	5.0	6.1	11.6	13.2	19.2	23.8
8. Near East	0.5	0.2	0.5	0.5	0.6	0.9	1.2	2.3	1.6	1.3	1.7	1.8	2.2	2.9	2.9
9. Africa	0.7	0.7	0.3	0.3	0.5	0.7	0.7	0.6	0.9	0.6	1.0	1.4	1.2	1.9	2.0
10. South America	0.5	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.1	1.4	7.6	9.3	7.3	10.1

^aPercentages for Sino-Communist country trade in 1950-1953 and for Sino-non-Communist country trade in 1962-1964 are based on incomplete data. Complete coverage is obtained in all other years, but does include some estimates for China's trade with individual Communist countries.

^bIncludes Cuba in 1960-1963.

^cExcludes Cuba in 1960-1963.

Source: Brown and Neuberger, ed. International Trade and Central Planning, p. 240.

TABLE 8

PRC IMPORTS FROM EUROPE AND JAPAN
1967
(Thousands of U.S. Dollars)

Standard International Trade Classification
Commodity Sections

Country	0	1	2	3	4	5	6	7	8	9	Total
Belgium-Luxem.	—	—	2326	—	—	10109	9399	217	188	434	22674
France	—	—	420	—	—	16852	39572	34989	1330	—	93199
German Fed.	—	—	1889	112	—	37144	108795	44767	13718	80	206515
Italy	—	—	3425	—	—	27490	26830	15324	504	—	73575
Netherlands	—	—	62	69	—	10443	829	753	—	—	12249
United Kingdom	—	—	18093	—	—	10867	41494	27240	6735	195	105022
Austria	—	—	—	—	—	3933	3287	6477	—	—	13720
Japan	—	—	14349	—	—	98658	130677	38789	551	323	288317

Source: World Trade Annual 1967, Statistical Office of the United Nations, Walker and Company, New York.

Trade Expansion

China seeks to form a coalition of small and medium countries to struggle against economic exploitation and political manipulation by the two super powers.¹ In Asia, Africa, and Latin America, the PRC has shown great interest in expanding trade, but these activities are more political than economic.² The Chinese interpretation of Communism implies that the PRC should attempt to spread its ideology throughout the world. An important instrument in exerting political influence is economic leverage.

The country to which economic benefits are offered is usually underdeveloped and politically unstable. Politicians must agree to certain Chinese political demands before this aid can be received. The popularity of the local politician often depends upon the amount of economic development he can bring to his country. The choice can be to accept Chinese aid, or lose political prestige. Political influence through economic leverage can occur through the processes of offering better terms of trade than available elsewhere, financing economic development, or offering to open Chinese markets to trade.

PRC trade with Third World nations rose from 34.5 per cent of total in 1950, to 57.2 per cent of the total in 1964. Preferential terms of trade have been offered to several underdeveloped countries with balance of trade deficits. The PRC has signed agreements with: Ceylon, Malaysia, Peru, and Chile to increase imports from these countries. This increase

¹Harry Harding, Jr. China: The Fragmentation of Power, Asian Survey XII, No. 1., (January 1972), p. 7.

²Lu Chang, "The Development of External Trade of New China." Union Research Service Vol. 36, No. 21, (September 11, 1964), p. 310.

in exports will ease the balance of payments problems for those countries.¹ Cuban sugar was also included in a purchase agreement at a time when Cuban sugar exports were lagging.² Cotton was imported from Egypt and Pakistan under politically motivated bilateral agreements.³

PRC aid has been extended to numerous socialist and Third World countries, Tables 9 and 10. "The pattern of aid that has emerged since 1961 had been comprised of tying assistance to the delivery of Chinese goods and services."⁴ Projects are chosen to have maximum growth impact on the domestic economy, and funded through long term interest free, or low interest loans. During the period 1956-1957, PRC grants and loans may have reached \$72 million, the important beneficiaries being Cambodia, Indonesia, Nepal, Ceylon and Egypt.⁵ Foreign aid for 1970 totaled \$709 million. Major recipients were: Tanzania and Zambia, \$201 million each, Pakistan \$200 million, Sudan \$12 million, Ceylon \$12 million, and Guinea \$10 million.⁶

Tanzania and Zambia are receiving the greatest amount of PRC aid. A railway is being built and financed by the Chinese, linking the port capital of Dar es Salaam, Tanzania to the copper belt towns of Zambia.

¹U.S. News and World Report (November 29, 1971), p. 35.

²Joseph Newman, ed., A New Look at Red China (Washington, D.C.: U.S. News and World Report, 1971), p. 138.

³Wu, The Economy of Communist China, p. 175.

⁴Prybyla, The Political Economy of Communist China, p. 411.

⁵Ibid., 222.

⁶Society for International Development, Performance Facts About Assistance Flows to the Developing Countries by Member Countries of the OECD Development Assistance Committee, Survey of International Development IX, No. 1 (January, 1972), p. d.

TABLE 9

COMMUNIST CHINA'S AID TO NON-COMMUNIST COUNTRIES, 1956-64
(In Millions of U.S. Dollars)

	1956	1957	1958	1959	1960	1961	1962	1963	1964	Total	Drawn Through 1963
Sub-Saharan Africa											
Central African Republic	--	--	--	--	--	--	--	--	4.0	4.0	0.0
Congo (Brazzaville)	--	--	--	--	--	--	--	--	25.2	25.2	0.0
Ghana	--	--	--	--	--	19.6	--	--	22.4	42.0	0.0
Guinea	--	--	--	.5	26.0	--	--	--	--	26.5	5.5
Kenya	--	--	--	--	--	--	--	--	18.0	18.0	0.0
Mali	--	--	--	--	--	19.6	--	--	--	19.6	0.3
Somali Republic	--	--	--	--	--	--	--	21.6	--	21.6	0.4
Tanzania	--	--	--	--	--	--	--	--	45.5	45.5	0.0
Asia											
Burma	--	15.8	--	--	--	84.0	--	--	--	84.0	4.5
Ceylon	--	--	10.5	--	--	--	10.5	--	4.2	41.0	10.7
Cambodia	22.9	--	--	--	26.5	--	--	--	--	49.4	34.9
Indonesia	16.2	--	11.2	--	--	30.0	--	--	50.0	107.4	27.4
Laos	--	--	--	--	--	--	4.0	--	--	4.0	0.0
Nepal	12.6	--	--	--	21.0	9.8	--	--	--	43.4	6.3
Pakistan	--	--	--	--	--	--	--	--	60.0	60.0	0.0
Near East and North Africa											
Algeria	--	--	--	--	--	--	1.8	50.0	--	51.8	1.8
Syria	--	--	--	--	--	--	--	16.3	--	16.3	0.0
U.A.R.	4.7	--	--	--	--	--	--	--	80.0	84.7	4.7
Yemen	--	--	12.7	.7	--	--	--	.2	28.5	42.1	12.5
Total	56.4	15.8	34.4	1.2	73.5	163.0	16.3	88.1	337.8	786.5	109.0

Note: -- stands for "none."

Source: Alexander Eckstein, Communist China's Economic Growth and Foreign Trade, p. 307.

TABLE 10

COMMUNIST CHINA'S AID COMMITMENTS TO OTHER COMMUNIST COUNTRIES,
1953-64^a
(In Millions of U.S. Dollars)

Year	Albania	Hungary	North Korea	North Vietnam	Outer Mongolia	Total
1953	—	—	200	—	—	200.0
1954	—	—	—	—	—	—
1955	4	—	—	200	—	204.0
1956	2	7.5	—	—	40	49.5
1957	4	50.0	—	—	—	54.0
1958	5	—	25	—	25	55.0
1959	19	—	—	100	—	119.0
1960	5	—	105	—	50	160.0
1961	125	—	—	157	—	282.0
1962	—	—	—	—	—	—
1963	—	—	—	—	—	—
1964	—	—	—	—	— ^b	—
Total	164	57.5	330	457	115	1,123.5

^aExcluding Cuba

^bIn 1964, Communist China provided Outer Mongolia with a 200,000-yuan grant (\$80,000 at the official exchange rate of 2.62:1). Since this was a negligible amount, I chose to disregard it.

Note: — stands for "none."

Source: Alexander Eckstein, Communist China's Economic Growth and Foreign Trade, p. 306-307.

Financing is through an interest free loan of \$450 million. The PRC is building a boatyard and a textile mill in the Congo, and financing a railroad between Guinea and Mali. Other African countries are envious of this aid and the PRC had made it known that diplomatic recognition of the PRC is a prerequisite to aid.¹

The prospect of trade expansion is often dangled as a lure to foreign exporters, then used as a weapon to gain political concessions.² During the summer of 1971, Chou En-lai assured Ottawa that the PRC would consider Canada the primary source of wheat when the need arose. Australia was then told that the PRC would resume wheat purchases as soon as Australia extended diplomatic recognition to Peking; without recognition, there would be no order. Canada terminated diplomatic relations with Nationalist China and recognized the PRC. Canada got a \$154 million contract to export wheat to the PRC, and Australia lost a market for about 40 per cent of their crop. Peking then told the opposition party in Australia that they would recover their market as soon as they established diplomatic relations with Peking.³

The ideological beliefs of the PRC have distinct, but limited effect on foreign trade. Ideological differences with the Soviet Union caused severance of aid from that country, but economic development was too important to be foregone, and trade was established with capitalist nations. Foreign trade relations with Third World countries are largely politically motivated since the import and export commodities are more competitive than complementary. Both Third World countries and the PRC tend to export primary commodities, importing machinery and equipment.

¹Newman, ed., A New Look at Red China, p. 128.

²Wu, The Economy of Communist China, p. 80.

³Newman, ed., A New Look at Red China, p. 105.

CHAPTER IV

PHYSICAL SIZE AND DEVELOPMENT

Geographic and Demographic Size

PRC foreign trade is determined partially by the socio-economic system and partially by physical characteristics. China is a large country, both in population and geographical extent. This size causes the PRC to be less dependent upon trade. Larger countries possess within their borders sufficient demand to allow modern industry the advantages of economies of scale.¹ Higher per capita economic performance requires specialization and the advantages of economies of scale. Smaller countries must rely on trade for those benefits, while the larger countries may find these advantages available within their borders.²

Long distances, difficult terrain and formidable climate may cause the cost of transportation to be prohibitive, exceeding the cost of importation. Grain surpluses in the area of the upper Yangtze River were more than 1000 miles from the cities to be supplied. "Grain imports were a means of substituting foreign ships for Chinese railroads."³ Chinese railways carry the largest volume of freight and are a limiting factor in economic development. Only 70 Chinese cities have regular air service

¹Brown and Neuberger ed., International Trade and Central Planning, p. 179.

²Simon Kuznets, Modern Economic Growth: Rate Structure and Spread (New Haven and London: Yale University Press, 1966), p. 302.

³Brown and Neuberger ed., International Trade and Central Planning, p. 186.

and nearly all these flights are limited to daylight hours.¹ Inadequate transportation and communications are restrictions upon the trade of the PRC.

Degree of Development

During early stages of economic development, trade tends to expand. As this process continues, a country begins to show a marked tendency away from dependence on trade. This phenomenon is sometimes called the law of declining trade, and may be weak, but still exists.² Dependence upon foreign trade tends to rise with initial development as a wide variety of inputs become needed, many of which are not available from the domestic economy. Expanding transportation and communication networks also open up new markets thereby increasing trade. As development continues, dependence on trade begins to decline. Innovation and technology begin to allow import substitution. Services comprise a large proportion of the economy for a developed country, and these are more easily produced domestically. Also, as an economy becomes more developed, it exerts a tendency towards instability. Industrialized countries will adopt restrictive trade policies to maintain income and employment.³

Economic development is accompanied by structural changes which affect the commodity composition of trade. Capital-labor ratios show a general increase, and reflect the increasing complexity of the capital employed. This, complemented by greater division of labor and the increasing size of productive units, allows the production of more sophisticated output.

¹T. R. Tregear, An Economic Geography of China (New York: American Elsevier Publishing Company, Inc., 1970), p. 177.

²Simon Kuznets, Modern Economic Growth, p. 319.

³Ibid.

Secondary industries increase more rapidly than primary industries, both of which are eventually surpassed by the growth of the tertiary industries.¹

The PRC is a developing country, importing commodities which accelerate economic growth and exporting primary products, mainly raw and processed agricultural commodities. As development continues, PRC dependence on foreign trade will diminish as technology and innovation allow import substitution. The increasing complexity of industry permits diversification as well as greater technical sophistication. Production of advanced products can mean new markets in the more developed countries of the world, as well as increased demand from Third World countries.

The large geographic and demographic size indicates a tendency for the PRC to become relatively independent of foreign trade. Raw materials necessary for economic development are probably present within the borders, and the population size implies potential markets sufficient to allow industrial efficiency. An expanding transportation and communication network will tie the country more closely together, further decreasing the dependency upon external trade. Import substitution will allow the PRC to manufacture most of the products which it formerly imported.

Geographic and demographic size, along with economic development indicate that the PRC will become relatively independent of external trade.

¹Everett E. Hagen, The Economies of Development (Richard D. Irwin: Homewood, Illinois, 1968), p. 40-41.

CONCLUSIONS

Several factors cause the foreign trade policies of the PRC to appear contradictory, or non-existent. The PRC has been in existence only twenty-three years. This short time period coupled with an inadequate statistical network and the political manipulation of information cause any statistical conclusions to be open to question.

The foreign trade of the PRC is a combination of desire and necessity. A Western imposed embargo in 1950 denied access to most Western markets and limited the PRC to trade with socialist countries. The Sino-Soviet dispute then forced the Chinese to trade with the West. Natural disasters, 1958-1960, caused the PRC to change the composition of its trade, importing grain to alleviate food shortages. These events imply that economic considerations may be more important than ideological factors in determining external trade .

An important assumption, on which the following conclusions are based, is that the current leadership will maintain its power and goals. There is evidence of wide differences of opinion among party factions, and any change in the current power structure could affect foreign trade policies.

Ideological and economic factors determine the direction, composition and motivation of PRC external trade. Economic development appears as the primary motivation of trade, as the PRC imports equipment and

machinery, trading with capitalist as well as socialist countries. The Sino-Soviet dispute was an example of this generalization. Ideological differences caused the severance of aid from that country, but the more basic ideological dispute with capitalism was overlooked as the need for industrial commodities caused the PRC to direct its trade towards Western markets.

Ideological motives influence trade with Third World countries as the import and export commodities of the PRC and many Third World countries are more competitive than complementary. The PRC attempts to exert political influence through economic leverage and spread Communism within the Third World.

Composition of PRC trade is largely determined by the degree of economic development. During the initial stages of economic growth, industrial commodities were imported in exchange for raw and processed agricultural products. With increased development, the commodity composition of external trade will change. More manufactured goods will become domestically available, resulting in a decrease in the importation of these commodities. Exports will be composed of manufactured goods and motivated by the need to pay for imports and earn foreign currency to maintain diplomatic missions and foreign aid programs.

Economic development, and the large geographic and demographic size will allow the PRC to become relatively independent of external trade. Some degree of autarky will probably be implemented with the PRC taking advantage of foreign-domestic price differentials, but expanding capacity and capability so that in the event of a trade stoppage, economic and

military production will not be curtailed. External trade can be expected to become increasingly motivated by political considerations, as the PRC will no longer need to depend on trade for development and can concentrate on spreading Communism.

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FOREIGN TRADE
OF THE
PEOPLE'S REPUBLIC OF CHINA

by

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AN ABSTRACT OF A MASTER'S REPORT
submitted in partial fulfillment of the
requirements for the degree

MASTER OF SCIENCE

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1972

Since 1917, governments representing one-third of the world's population have adopted Communism. This ideology contains two characteristics which influence external trade, central planning and the maintenance of an antagonistic position toward capitalism. The People's Republic of China (PRC) was established in 1949 and has instituted central planning while maintaining an unfriendly attitude vis-a-vis capitalism. This attitude has caused the PRC to be relatively isolated from Western countries. In recent months, the PRC has been seated in the United Nations and received de facto recognition from the United States. These events imply that the PRC may be interested in establishing closer economic ties with the West.

PRC foreign trade has increased from \$1761 million in 1952 to \$2870 million in 1963. This trade was directed toward other socialist countries until 1960. At this time the Sino-Soviet dispute caused trade to be re-directed to Western countries, as well as sharply reducing the volume of trade. Since 1960, foreign trade has been steadily rising with the majority of this increase being with the West and the Third World.

The political orientation of the PRC, and the operation of a centrally planned economy imply that trade with this nation cannot occur under the same conditions as trade among capitalist nations. This study attempts to isolate and analyze the factors influencing the motivation, direction, and composition of the external trade of the PRC.

Implementation of central planning could create a tendency toward autarky because of uncertainty regarding imports and exports. Taut planning causes difficulties in trade among socialist countries while the market mechanism brings about uncertainty for a socialist nation trading

on world markets. Another argument in support of autarky is potential fluctuations in the export prices of basic commodities. Unexpected changes in foreign currency reserves can disrupt economic development. Use of bilateral trade and payment agreements is one method the PRC uses to eliminate uncertainty and it is argued that exports are sufficiently diversified so as to mitigate difficulties caused by changing prices.

Communist ideology implies that the PRC could not wish to be economically dependent on trade with capitalist nations. Apparently ideology is secondary in importance to economic growth as the PRC attempts to accelerate development through trade with capitalist, as well as socialist nations. Trade with the developing countries of the Third World appears to be politically motivated because the imports and exports of the PRC and the Third World are more competitive than complementary.

Physical size and degree of economic development also influence trade. The absolute size of the PRC implies the potential presence of natural resources needed by an industrialized nation, and the population is large enough to provide markets sufficient to allow industrial efficiency. Economic development will allow import substitution, further decreasing dependency on external trade.

Ideological and economic considerations affect the motivation, composition and direction of PRC external trade. Economic development appears to be of primary importance, although political factors are distinctly influential.

Geographic and demographic size, along with economic development, will allow the PRC to become relatively independent of external trade. A decline in the need for economic growth may allow political considerations to become the primary factor influencing external trade.