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INTELLIGENCE REPORT

COMMUNIST CHINA'S BALANCE OF PAYMENTS 1950-65

DIRECTORATE OF INTELLIGENCE

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COMMUNIST CHINA'S BALANCE OF PAYMENTS*
1950-65

Summary

The wide swings in Communist China's economic fortunes since 1949 have been the major influence on the course of its international payments. During 1950-57 the rapid growth of the economy provided an upsurge in exports, which, supplemented by more than a billion dollars in long-term foreign aid and almost another billion in remittances from overseas Chinese, helped China meet its expanded requirements for foreign machinery and raw materials. In contrast, the "leap forward" debacle (1958-60) caused imports quickly to outpace exports, resulting in a sharp rise in short-term foreign indebtedness and a decline in China's international reserves. The country's difficulties in meeting its international obligations during 1958-62 were compounded by the growing Sino-Soviet dispute and by agricultural failures, which led to the purchase of about 6 million tons** of Free World wheat annually beginning in 1961. The deterioration of China's international payments position nevertheless was almost halted in 1961-62, largely by virtue of a deep slash in imports from Communist countries*** and by new infusions of foreign credit.

By 1963, China's international financial position began to improve, as the gradual recovery of the economy brought a revival of exports and the Chinese leadership continued to restrict purchases of machinery and raw materials from both the USSR and the West. By the end of 1964, gold and hard-currency reserves stood at more than \$300 million, and China's clearing deficits with the USSR and Eastern Europe had been almost eliminated. Moreover, by generating a large export surplus with the USSR each year, the Chinese were able by 1965 to finish repaying their billion-dollar debt to the USSR.

Since 1963, when China's Free World trade surpassed its trade with Communist countries for the first time since 1950, the Chinese increasingly have turned to the West for credit to help finance heavy imports of grain and growing purchases of capital equipment, fertilizer, and other goods. So far, China has sought only short and medium-term

* This report was produced by the Office of Research and Reports; the estimates and conclusions represent the best judgment of the Directorate of Intelligence as of 1 March 1966.

** Tonnages are given in metric tons.

*** The term Communist countries as used in this report includes the USSR, the Eastern European Communist countries (Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania), Cuba (since 1960), Yugoslavia (unless otherwise indicated), and the Far Eastern Communist countries (Mongolia, North Korea, and North Vietnam). The term Soviet Bloc includes the USSR and the Eastern European Communist countries.

(up to five-year) credits. Such credit has given little relief to China's hard-currency payments position, however, because the large outflow of repayments due each year has almost offset new drawings. If the Chinese leaders continue to rely on medium-term credits, repayments are likely to surpass new drawings in the next few years. It is possible, therefore, that they may seek long-term credits from the West to finance imports of additional plant and equipment needed to accelerate their industrial development. (For data on the direction and balance of China's foreign trade, 1950-64, see Table 1, and for China's international payments and receipts during this period, see Figure 1.)

Table 1

Communist China: Direction and Balance of Foreign Trade ^{a/}
Annual Averages for Selected Periods, 1950-64

Million US \$				
Period	Annual Averages			Trade Surplus (+) or Deficit (-)
	Total	Imports	Exports	
With the Free World				
1950-57	781	406	375	-31
1958-62	1,269	669	600	-69
1963-64	1,740	852	888	+35
With the Communist Countries				
1950-57	1,547	799	748	-51
1958-62	2,213	990	1,223	+233
1963-64	1,185	408	776	+368
Total				
1950-57	2,328	1,205	1,123	-82
1958-62	3,481	1,659	1,823	+164
1963-64	2,926	1,260	1,665	+404

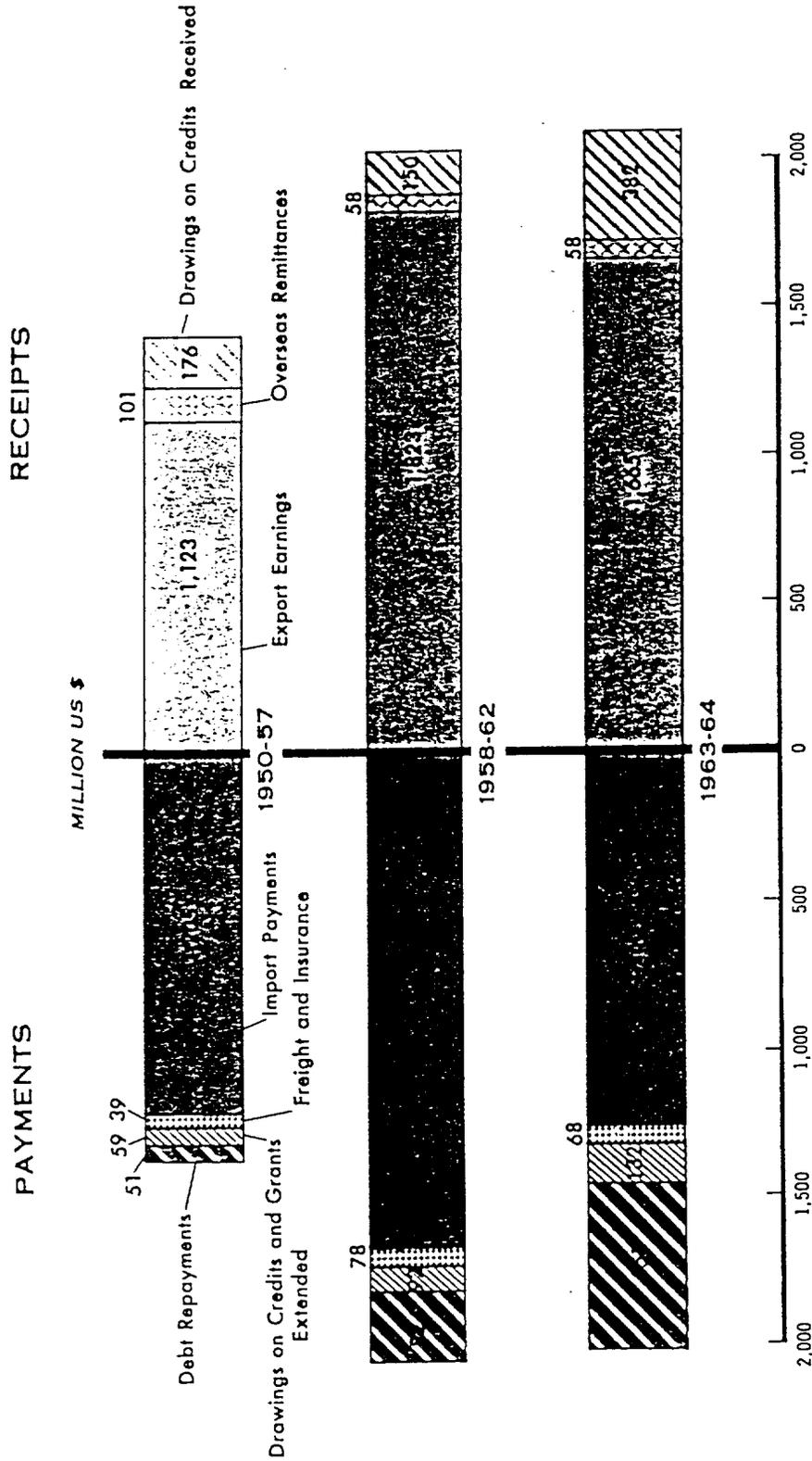
a. Trade data are presented on a balance-of-payments basis as derived in Table 8, p. 25, below. Because of rounding, components may not add to the totals shown.

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Figure 1

COMMUNIST CHINA: International Payments and Receipts*

Annual Averages for Selected Periods, 1950-64



*Excluding other miscellaneous payments and receipts.

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I. Changes in China's Balance of Payments

The balance of payments is a standardized accounting statement which summarizes a country's foreign economic transactions and discloses changes in patterns of financing trade, in currency holdings, in foreign debt, and in other indicators of a country's international financial position. During 1950-65, China's balance of payments underwent dramatic changes which reflected shifts in the country's internal economic fortunes and the impact of its deteriorating political relations with the USSR and Communist Eastern Europe.

To pay for its imports as well as to accumulate a small foreign exchange reserve and to support a foreign aid program, China has relied on commodity exports, foreign credits, and overseas remittances. It derives very little from the sale of gold or services or from interest (see Figure 2). Exports have been by far the dominant source of international receipts, accounting for roughly three-fourths of total receipts each year during 1950-65. Foreign credits have provided an important supplement to export earnings. In the early 1950's, long-term credits from the USSR supplied the essential capital for China's rapid industrialization. Since early 1961, however, the country's growing estrangement from the USSR and its urgent requirements for Western grain have caused the Chinese to turn to the West, rather than to the Communist countries, for credit. Western credits, however, have been almost exclusively of a short-term character. The third important source of international receipts, remittances from overseas Chinese to their relatives on the mainland, brought in an average of \$80 million each year during 1950-64 to finance an import surplus in China's Free World trade.

A. Strengthening of China's International Payments Position, 1950-57

During its first eight years under Communist rule (1950-57), China strengthened its international financial position by accumulating substantial foreign exchange reserves (see Table 2). Starting with almost no international financial resources in 1950, the country built up its foreign exchange reserves to about \$565 million by the end of 1957.* This task was accomplished with the help of long-term credits from the USSR, but at the same time China was rapidly expanding imports and launching a foreign aid program.

Possibly two-thirds of its foreign exchange (currency and gold) reserves were accumulated by expropriating private holdings and by monetizing the small amount of domestically produced gold. The remaining increment to these reserves represented net earnings on transactions with other countries. Altogether, foreign currency and gold reserves**

* Changes in hard-currency holdings are assumed to account for almost all of the item Errors and omissions (net) in China's balance of payments with the Free World.

** Text continued on p. 6.

Table 2

Communist China: Summary of the Balance of Payments
Totals for 1950-57, 1958-62, and 1963-64

	Million US \$			
	<u>Free World</u>		<u>Communist Countries</u>	
	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>
	<u>1950-57</u>			
Current account (net)	<u>286</u>			<u>675</u>
Merchandise trade balance		246		408
Freight and insurance		239		73
Overseas remittances	811			
Other transactions (net)		40		194
Capital and monetary gold (net)	<u>274</u>		<u>365</u>	
Credits and grants extended				
Net drawings		23		445
Credits received				
Drawings			1,404	
Repayments				405
Transfer of Soviet-owned assets <u>a</u> / [*]				330
Expropriation of convertible currencies	385			
Other transactions (net)		88	141	
Errors and omissions (net) <u>b</u> / [*]		<u>560</u>	<u>310</u>	
			<u>1958-62</u>	
Current account (net)		<u>442</u>	<u>987</u>	
Merchandise trade balance		345	1,165	
Freight and insurance		319		71
Overseas remittances	292			
Other transactions (net)		70		107

* Footnotes follow on p. 5.

Table 2

Communist China: Summary of the Balance of Payments
 Totals for 1950-57, 1958-62, and 1963-64
 (Continued)

	Million US \$			
	<u>Free World</u>		<u>Communist Countries</u>	
	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>
Capital and monetary gold (net)	<u>41</u>			<u>865</u>
Credits and grants extended				
Net drawings		44		384
Credits received				
Drawings	384		366	
Repayments		216		905
Other transactions (net)		83	58	
Errors and omissions (net) <u>b/</u>	<u>401</u>			<u>122</u>
			<u>1963-64</u>	
Current account (net)		<u>25</u>	<u>774</u>	
Merchandise trade balance	73		736	
Freight and insurance		160	25	
Overseas remittances	117			
Other transactions (net)		55	13	
Capital and monetary gold (net)	<u>16</u>			<u>626</u>
Credits and grants extended				
Net drawings		42		211
Credits received				
Drawings	764			
Repayments		682		432
Other transactions (net)		24	17	
Errors and omissions (net) <u>b/</u>	<u>2</u>			<u>148</u>

a. This transfer was financed by Soviet credits (see Appendix B, item 9 (b), p. 47, below).

b. Assumed to be changes in foreign currency balances (Free World) and clearing balances (Communist countries).

increased by \$565 million. Partly offsetting the increase in these items was a clearing indebtedness with Communist countries (especially the USSR) amounting to about \$310 million,* so that China's net international financial resources were about \$255 million at the end of 1957 (see Table 3).

Table 3

Communist China: International Financial Resources
Year-End Balances, 1957 and 1959-64

	Million US \$						
	<u>1957</u> ^{a/}	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
Foreign exchange reserves	565	457	353	298	279	283	320
Foreign currency balances ^{b/}	560	407	268	203	159	138	150
Monetary gold holdings ^{c/}	5	50	85	95	120	145	170
Clearing account balances (with Communist countries) ^{d/}	-310	-427	-625	-243 ^{e/}	-188	-105	-40
Net international financial resources	255	30	-272	55 ^{e/}	91	178	280

a. Because foreign exchange reserves were negligible at the beginning of 1950, reserves at the end of 1957 represent the net changes during 1950-57.

b. Net balance of errors and omissions (from China's balance of payments with the Free World), which are almost entirely changes in foreign currency balances arising from transactions with the Free World.

c. Net balance of changes in holdings of monetary gold.

d. Net balance of errors and omissions (from China's balance of payments with the Communist countries), which are almost entirely clearing account balances arising from transactions with Communist countries.

e. The reduction in the clearing debt in 1961 and the consequent improvement in China's clearing and foreign exchange position are due almost entirely to the USSR's funding of China's clearing debt of \$320 million (see p. 9, below).

* Changes in clearing account balances are assumed to account for almost all of the errors and omissions (net) in China's balance of payments with Communist countries.

During this period, merchandise imports -- largely capital goods -- increased by about 14 percent annually, from more than \$550 million in 1950 to nearly \$1.4 billion in 1957, and averaged about \$1.2 billion a year.* Even considering the low level of trade in 1950, this increase was an achievement surpassing the rate of import expansion of most of the less developed countries of the Free World. Current imports could have been even greater had China not used some of its export resources to provide long-term economic assistance to other countries. From the beginning of the aid program in 1954 to the end of 1957, China provided, mostly to other Communist countries, about \$475 million in both goods and foreign currency -- a total volume of credits and grants which compares favorably with that provided by all but the two leading industrial powers of the world.

Three factors were largely responsible for this strengthening of China's international payments position. Foremost was the regime's tight control of the economy, including a system of strict and highly effective trade and foreign exchange controls. Its pervasive control of economic activity enabled the leadership to channel domestic goods to export and to allocate export earnings to the purchase of capital goods rather than to increased consumption. Thus between 1950 and 1957, imports of consumer goods grew from about \$60 million to around \$100 million, while imports of capital goods increased by one and one-half times, from less than \$500 million to \$1.3 billion during the same period. At the same time, merchandise exports more than doubled, rising from \$625 million in 1950 to about \$1.6 billion in 1957. Second, China obtained from the USSR long-term credits totaling \$1.4 billion. These credits were equivalent to about 15 percent of China's total imports and 29 percent of its imports from the USSR during this period. Because of large repayments beginning in 1954, however, the outstanding debt to the USSR at the end of 1957 was only \$1 billion. Third, China absorbed foreign currencies from both domestic and external sources. Through such campaigns as the "three-anti" and "five-anti" movements,** China is estimated to have collected on the mainland \$385 million of privately held foreign exchange, including gold. The country also received about \$810 million in remittances from overseas Chinese, an amount which was more than sufficient to cover the deficit on the trade and shipping accounts with the Free World over these eight years.

* Unless otherwise indicated, data in this report are presented in or derived from the global and regional tables of China's balance of payments in Appendix A (Tables 5 through 7, pp. 19 through 21, below) and from the supporting tables in Appendix B (Tables 8 through 22, pp. 25 through 42, below).

** The "three-anti" (san fan) movement was directed against the "three evils" of corruption, waste, and bureaucracy among government workers. The "five-anti" (wu fan) movement was directed against the capitalists, emphasizing the "five evils" of bribery of government workers, tax evasion, theft of state property, cheating on government contracts, and stealing economic information from government sources.

B. Deterioration of the Balance of Payments, 1958-62

The adoption of the "leap forward" in 1958 suddenly reversed the progress that China had made in strengthening its international payments position. The resulting deterioration of the balance of payments dissipated the achievements of the previous eight years, as indicated in Table 3.

From 1958 to mid-1960, China drew heavily on its foreign exchange and clearing resources to finance its growing import requirements. Under the "leap forward" banner the pursuit of the maximal growth in every sector of the economy, along with an almost complete lack of concern over imbalances in the rates of growth among economic sectors, stimulated a disproportionate demand for imports. Merchandise imports had grown at 7 percent a year -- about half as fast as exports -- during the first five-year plan (1953-57) but now increased at a rate of 20 percent a year in 1958-59, outpacing the growth of exports. During the first half of 1960, moreover, imports probably grew even more rapidly than in 1959, while merchandise exports registered little or no growth. China continued to have export surpluses in 1958 and 1959, but in the first half of 1960 an import surplus appeared for the first time since 1955.

Primarily because of this widening gap between the growth of imports and exports during 1958-60, China's gold and hard-currency reserves declined by about \$210 million. The rapid growth of imports from the USSR caused China's clearing indebtedness to rise by \$315 million. The decline in Western currency holdings was aggravated by the large volume of export resources earmarked for debt repayment to the USSR.

The collapse of the "leap forward" movement in mid-1960 compelled China to take prompt and vigorous steps to contain the deterioration of its balance of payments. Disruption of both agricultural and industrial production had led to a sharp decline in exports. Agricultural exports, which in normal years accounted for at least half of total exports, were hardest hit. China's response was to slash imports, especially from the Free World. Imports from this area in the second half of 1960 were reduced by nearly one-fourth in comparison with the first half; imports from Communist countries probably were reduced, although not as rapidly. Sales of silver were expanded from \$2 million in the first half of 1960 to \$20 million in the second half. These actions were not enough, however, to prevent a further reduction in foreign exchange reserves during the latter half of 1960, accompanied by a continuing rise in clearing indebtedness with Communist countries.

For the next two years, China continued to adjust its trade position to accommodate large imports of grain while endeavoring to prevent further deterioration in its international reserve position. Exports fell off in 1961 but were maintained at roughly the 1961 level

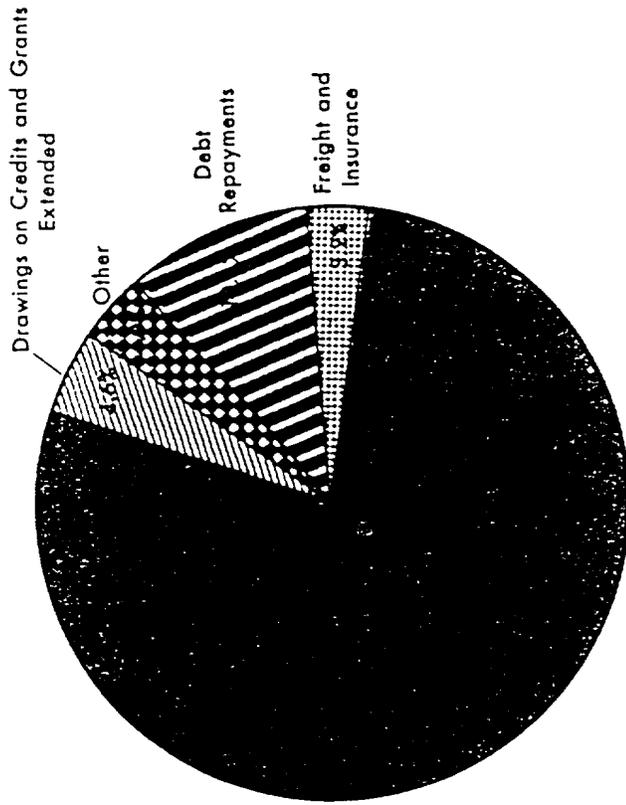
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Figure 2

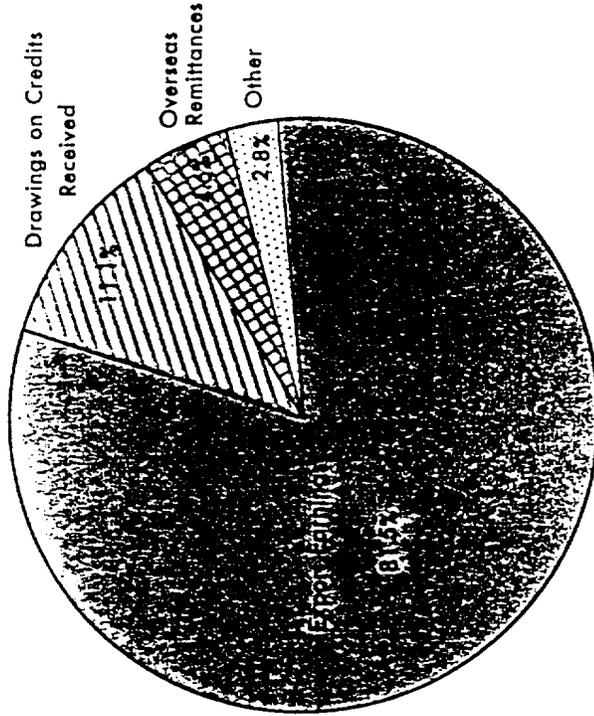
COMMUNIST CHINA: Percentage Distribution of International Payments and Receipts

1950-64

PAYMENTS



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in 1962. Merchandise imports were ruthlessly cut in 1961 and again in 1962, resulting in export surpluses of \$115 million in 1961 and more than \$400 million in 1962. Large grain imports in these years were accompanied by a reduction of more than one-half in imports of all other commodities, which fell from \$2 billion in 1960 to about \$800 million in 1962 -- the lowest level since 1950.

Despite these adjustments in trade, China still needed foreign credits to supplement export earnings (see Table 2). Nearly \$360 million in short-term credits was obtained from the Free World to help finance \$630 million worth (f.o.b.) of grain imported during the two years 1961-62, and about \$25 million in short and medium-term credits was used to pay for other purchases in the Free World. Because repayments were largely scheduled within 9 to 18 months, China had paid off all but about \$170 million of this indebtedness by the end of 1962.

The USSR and the Eastern European Communist countries also provided credits to ease China's balance-of-payments distress. The USSR extended a \$46 million credit in 1961 to finance China's imports of about 500,000 tons of Cuban sugar on Soviet account. China also obtained a long-term credit of \$320 million from the USSR in 1961 to fund the bulk of its accumulated clearing debt. The \$54 million of clearing indebtedness remaining at the end of 1960 was settled in 1961 through trade.* Some clearing indebtedness with the Eastern European Communist countries probably was funded or converted into long-term credits in 1961, but the amount of these credits is unknown.

To meet payments falling due in 1961 and 1962, China undertook extraordinary sales of precious metals. Sales of silver to Free World countries were increased from \$22 million in 1960 to more than \$50 million in 1961 and \$47 million in 1962; in addition, China sold \$30 million worth of silver to the USSR for Free World currency. It also sold, through the USSR, nearly \$15 million worth of gold to the Free World.**

C. Revival of the Balance of Payments, 1963-65

Gradual recovery of the economy from the "leap forward" and its aftermath contributed to a small improvement in China's international financial position in 1963-64. Fragmentary data indicate that this improvement continued through 1965. In 1963, for the first time since the initiation of the "leap forward," China was able to finance its international obligations while neither drawing down its international reserves nor curtailing its imports.

A surprisingly rapid rise of nearly 15 percent in earnings from merchandise exports in 1964 enabled China to continue to expand imports and to replenish reserves as well as to reduce its international

* See Appendix B, item 5 (b), p. 40, below.

** By statistical convention, silver sales are included in China's exports of goods, but gold sales are itemized separately.

indebtedness by nearly \$200 million. Merchandise exports and imports both increased by about \$235 million. International financial resources, mainly clearing balances, rose by more than \$100 million to a total of \$280 million at the end of 1964. Holdings of Western currencies alone increased by about \$12 million in spite of sizable prepayments of grain credits.

During these two years, China retired almost all of its remaining debt with the Communist countries. Its \$423 million merchandise export surplus with the USSR during 1963 and 1964 was sufficient to pay off all its debt except \$28 million in kind still due on a sugar credit. Similarly, by the end of 1964, China had almost completely liquidated its remaining debt of about \$100 million with the Eastern European Communist countries. China's indebtedness with the Free World increased, because of continued heavy drawings on credits for grain and capital equipment, from less than \$200 million in 1963 to \$250 million in 1964. These drawings are net of repayments to the Free World amounting to more than \$680 million during this period.

In spite of these improvements, China's international financial position at the end of 1964 remained extremely tight. Holdings of Western currencies and gold are estimated to have totaled about \$320 million -- a level substantially below that of 1957, when China's Free World trade was considerably smaller. In 1957, gold and hard currency reserves were equivalent to China's total merchandise imports from the Free World; in 1964, these reserves were equal to about one-third of such imports.*

Incomplete trade data indicate that exports continued to expand in 1965, but not quite as rapidly as in 1964. Imports, on the other hand, apparently increased more rapidly than in 1964. This rise was made possible by the completion in 1964 of China's debt repayments to the USSR, thereby releasing some \$170 million in export resources, and by China's decision not to make prepayments on its Western grain credits in 1965. These two factors facilitated a continued expansion of imports from the Free World and the further replenishment of China's international reserves.

Indeed, the most noteworthy feature of China's payments position in 1965 was the increased use of export earnings to build up reserves. During 1965 its holdings of gold and convertible currencies probably rose by \$100 million to \$150 million. In 1965, moreover, Communist China made its first purchases of gold on the world market, which amounted to \$135 million and were paid for in sterling. This exchange of sterling

* Despite provision in the trade agreements for settlement of its Soviet Bloc clearing imbalances with gold and convertible currencies, China has rarely used these resources in this manner; rather, it has used gold and convertible currencies almost exclusively in making Free World payments.

for gold reflected not only the leadership's decision to diversify its international reserves, as a hedge against the possible devaluation of sterling, but its more immediate concern over the deepening political and military crisis in Southeast Asia. The Chinese nevertheless continued to hold some sterling balances overseas.

II. Financial Relations with Communist and Free World Areas

Communist China's financial relations with the Free World are conducted in a way much different from those with the Communist countries. Although generally preferring bilateralism in its trade with other countries, China is forced to finance most of its Free World trade on a multilateral basis with settlement in convertible currencies. Only a few of the less developed countries, especially those with payment difficulties such as Burma and Indonesia, have concluded agreements for bilateral clearing accounts with China.

In contrast, China's financial transactions with the Communist area are channeled almost entirely through bilateral clearing accounts. Although the agreements establishing the clearing accounts provide for settling any imbalance in trade by increased shipments of goods or by transfers of convertible currency or gold, the latter option is seldom used. Usually an adverse clearing balance is carried over to succeeding periods until the indebtedness has been cleared.

China has also entered into several multilateral payments arrangements involving both Communist and Free World countries. In 1952, China, the USSR, and Finland entered into a trilateral trade and clearing arrangement. It proved to be unsatisfactory, however, and after one year China and Finland concluded a bilateral trade agreement. Under a trilateral clearing transaction among China, Burma, and the USSR in 1959, Burma settled the indebtedness on its bilateral clearing account with China by transferring to China an equivalent credit imbalance from its bilateral account with the USSR. In addition, China and individual Communist countries have occasionally used Free World currencies to settle certain mutual trade and services transactions. For example, China used convertible currencies to purchase sizable quantities of steel products from Poland in 1956 and possibly again in 1957-58.

Communist China's deteriorating relations with the USSR have reversed the regional direction of its trade and capital transactions and have affected balance-of-payments management as well. In the early 1950's, when China and the USSR were consolidating their mutual political and economic ties, China's trade with Communist countries rapidly expanded while trade with the Free World declined. Thus by 1955 the Communist countries accounted for 74 percent of China's total trade.* Since 1955, however, Sino-Soviet ties have progressively weakened, and China has

* Trade data in this section vary somewhat from those used in Tables 5 through 7 because the latter reflect balance-of-payments adjustments.

relied to an ever greater degree on the Free World as a source of essential imports. In addition, China's bid for a larger role in world affairs has led to its growing economic support for the less developed countries of the Free World. As a result the share of the Free World in China's trade increased from roughly one-fourth in 1955 to one-third in 1960.

The Free World's role in Chinese trade grew especially rapidly after 1960 as a result of the widening of the Sino-Soviet rift following the withdrawal of Soviet technicians in midyear and the urgent need for grain to fill the gap left by a disastrous harvest. During 1961-64, trade with the Communist countries was halved while that with the Free World increased about 50 percent. In 1963, for the first time since 1950, the Free World accounted for more than half (55 percent) of China's trade. In 1964 the Free World share was nearly two-thirds. This reorientation of trade relations led to a marked expansion in China's trade with Japan and Hong Kong. In the two years 1963-64, Sino-Japanese trade, which had been in the doldrums since the sudden deterioration in political relations in 1958, increased by nearly three times. Trade with Hong Kong, the primary market in the Free World for Chinese exports, doubled during these two years. With the growing reorientation of its trade from the Soviet Bloc, where clearing credits were almost automatically extended to cover trade deficits, to the West, where each transaction generally requires settlement in foreign exchange, China's leadership must be cautious and astute in managing its slim holdings of Western currencies.

Similarly, Communist China's capital imports have been affected by the shift in its political relations with the Soviet Bloc. In 1961 the USSR, which had been China's only previous source of economic aid, assisted the Chinese by funding a large part of China's clearing indebtedness and by extending a small credit to China for the purchase of sugar. Several European Communist countries probably also funded China's clearing debts at this time. Since early 1961, no further aid has been extended to China by other Communist countries. Indeed, in 1961 China for the first time turned to the West for credits. Unlike the credits from Communist countries, however, those from the West have provided only short- and medium-term financing (of up to five years' duration), most of which was 18 months' credit to cover a large part of China's huge annual grain purchases since 1961.* In the past three years, 1963-65, China signed more than 40 contracts to purchase Western industrial installations, most of which have involved medium-term credit. To date, China has drawn around \$40 million of the estimated \$90 million of industrial credits extended. Because of the relatively short term of all the Western credits received so far, new drawings are being largely offset by repayments. Unless the Chinese seek

* Because these credits are considered normal commercial credits in world trade, the Chinese authorities have not designated them as "foreign debt."

long-term Western credits -- a quest that would probably be successful -- this situation is likely to prevail over the next few years, and may worsen.

In contrast to the redirection of Chinese trade and of capital imports toward the Free World, China continues to channel its foreign aid chiefly to the Communist countries, especially those of Asia. Since the start of the foreign aid program in 1954, 62 percent of China's foreign aid has gone to North Korea and North Vietnam together and 27 percent to other Communist countries; only 11 percent has been channeled to Free World nations. The predominant role of the Communist countries in China's foreign aid program is likely to continue, inasmuch as these nations are the main areas in which China and the USSR are competing for influence.

III. Curtailment of External Indebtedness

A distinguishing feature of Communist China's balance of payments has been the rapid reduction of external indebtedness. From 1950 to 1955, China received credits from the Soviet Bloc totaling almost \$1.6 billion, including \$1.4 billion in long-term Soviet credits and \$250 million more in short-term clearing credits from the USSR and the Eastern European Communist countries. China began in 1954 to repay these debts, as a result of which total external indebtedness at the end of 1955 amounted to just under \$1.4 billion (see Table 4). Over the next five years (1956-60), China's new borrowings from abroad shrank to about \$410 million, comprising almost entirely an accumulation of clearing debts to the USSR and the Eastern European Communist countries. Because, however, repayments (excluding interest) on the Soviet long-term credits were much greater than borrowings, China's total foreign indebtedness was reduced by about \$240 million to less than \$1.2 billion at the end of 1960. In effect, the clearing credits received during these years to a large extent enabled China to fulfill its debt repayment obligations to the USSR. During 1961 (when it received its last credit from the USSR) through 1964, China repaid more than \$900 million of its debts to the Soviet Bloc. Of the \$1,150 million of short-term (less than two years) credits received from the Free World during these years, only some \$250 million remained outstanding at the end of 1964. Consequently, China's total foreign indebtedness at that time had been reduced to about \$320 million. In 1965, China repaid the small remaining "sugar credit" of \$28 million to the USSR, and its overall indebtedness to the West perhaps increased slightly.

Whereas most industrializing countries today actively seek foreign financial assistance, the Chinese Communists from the beginning have asserted that a nation should depend as little as possible on foreign capital to finance economic development and that, furthermore, this foreign capital should come from "friendly" countries. Such statements

Table 4
Communist China: Net Capital Imports
1950-64

	Million US \$						Total		
	1950-55	1956-57	1958-59	1960	1961	1962	1963	1964	1950-64
Credit drawings	1,369	35			494 ^{a/}	256	347	417	2,918
Credit repayments	-202	-203	-280	-163	-178	-500	-552	-562	-2,640
Changes in clearing indebtedness ^{b/}	252	58	117	198	-382	-55	-83	-65	40
Net capital imports	<u>1,419</u>	<u>-110</u>	<u>-163</u>	<u>35</u>	<u>-66</u>	<u>-299</u>	<u>-288</u>	<u>-210</u>	<u>318</u>

a. Including the funded clearing debt of \$320 million, which represents merely the conversion of a short-term debt into a long-term debt.

b. Estimated on the assumption that these data account for almost all of the errors and omissions (net) in China's balance of payments with Communist countries and exclude clearing debts with the Free World, which were relatively insignificant.

can be largely discounted as an attempt to make a virtue of necessity: given China's hostility toward the USSR and its weak balance-of-payments position vis-a-vis the Free World, it is somewhat unlikely that sizable long-term loans could be obtained from either source. With the emergence of the Sino-Soviet dispute, China began to accelerate its debt repayments to the USSR: hence this debt was liquidated in 1965. By defining "foreign debt" to exclude trade credits -- including all outstanding debt to the Free World -- the Chinese leaders were able to claim that they developed their economy without Western assistance.

IV. Prospects

In its earlier attempts to achieve rapid industrialization, Communist China depended heavily on imports of Soviet capital equipment, technical aid, and industrial materials, a sizable part of which the USSR supplied on long-term credit. If the Chinese are to resume a rapid pace of industrial growth, they again will have to depend on imports. This time, however, because of the deepening Sino-Soviet rift, it is unlikely that they will seek assistance from the USSR. Instead, they will have to turn to the industrial West and Japan, where purchases must be paid for largely in hard currency. China's capacity to import capital plant needed for industrial development during 1966-70 therefore depends on (1) its capability to expand exports, especially to hard-currency areas; (2) its success in checking the drain of foreign exchange caused by large imports of grain; and (3) its willingness to seek sizable medium- and long-term credits in the Free World.

Although the Chinese will attempt to promote exports of new products, they probably will continue to rely largely on their traditional agricultural products to expand export earnings. During 1962-64, for example, their exports of nonagricultural products increased by only \$45 million, while total merchandise exports grew by about \$265 million. In 1964, agricultural products still accounted for 37 percent of total exports. Even industry -- notably the textile industry, which supplies roughly half of China's exports -- depends in large part on agricultural raw materials. Thus China's balance of payments will remain inextricably linked to the fortunes of agriculture.

Substantial progress can hardly be made in correcting the food-population imbalance in the short space of five years. Therefore, the prospects for expanding agricultural exports are, at best, uncertain. If food shortages become acute, the acreage devoted to production of crops for export and the number of animals slaughtered for food exports will shrink. The population will grow from an estimated 765 million at the beginning of the plan period to about 835 million at the end. To help feed this huge mass of people, China must continue to import on the average at least 5 million tons of grain a year, at an annual cost of more than \$300 million in hard currency. This sum is equal to approximately 30 percent of China's earnings from the Free World in 1964. Furthermore, unless the domestic agricultural sector is buttressed

by imports of fertilizer and equipment for fertilizer plants, requirements for Western grain may become much greater.

Short-term grain credits and medium-term industrial credits are expected to do little to relieve the pressure on China's hard-currency payments. In 1966, repayments should about equal and may even exceed new drawings. Even if the Chinese decide to expand medium-term industrial credits sharply, they would postpone for only a few years the time when repayments would surpass new drawings, and, after that, payments would rise sharply. More to China's advantage would be long-term credits which would defer repayments for ten years or more.

China has not sought long-term credits from the Free World, chiefly because of the uncertainty of the leadership over the long-run Chinese payments position and especially over future requirements for Western grain. Should the Chinese reverse their position and seek long-term credits, there is little doubt that Western European countries and possibly Japan, in competition with each other, would make such credits available. China may well seek a modest volume of long-term credits, once its agricultural and export prospects become clearer.

Communist China's nuclear development program and its recently stepped-up military construction activities related to the hostilities in Vietnam will continue to enjoy a higher priority than investment in industries that produce goods for export or export substitutes. Barring a sharp escalation of the Vietnamese conflict, however, China's resources are not expected to be so heavily committed as to seriously restrict its capacity to export or to absorb capital from abroad. For the time being at least, China's limited export capability and the need to spend a large part of its limited hard-currency receipts to buy Free World grain seem to be more immediate constraints on industrialization.

S-E-C-R-E-T

APPENDIX A

BALANCE-OF-PAYMENTS TABLES

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Table 5

Communist China: Balance of Payments a/

Item Number	Item	1950-51		1951-52		1952-53		1953		1954		Total 1950-54	
		Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
	Current account (net)	361	231	70	102	412	422	377	377	1,382	1,133	1,133	
1.	Merchandise trade (valued f.o.b.)	8,685	4,118	1,973	1,944	1,469	1,511	1,109	1,552	1,778	1,382	21,428	20,453
2.	Nonmonetary gold	48	45	3	25	79	25	51	25	82	82	228	
3.	Freight and insurance (net)												837
3.1	On international shipments												788
3.2	On coastal shipments												49
4.	Interest payments												206
5.	Other payments and receipts (net)	771	103	12	10	15	17	17	10	10	21	21	206
6.	Unilateral transfers (net)												132
6.1	Overseas remittances	811	113	60	46	61	58	58	48	49	1,105	1,105	1,105
6.2	Financial assistance for covert operations abroad												1,220
	Capital and monetary gold (net)	591	40	267	215	15	58	15	10	10	10	115	115
7.	Credits and grants extended			501	267	215	101	101	260	300	300	1,023	1,023
7.1	Drawings												1,197
7.2	Repayments (including interest)	5	10	78	7	100	114	114	6	6	48	48	48
8.	Credits received												48
8.1	Drawings	1,404											2,918
8.2	Repayments												2,640
9.	Transfer of Soviet-owned assets	330		163	163	178	500	500	347	417	562	2,640	2,640
10.	Changes in clearing account balances with the Free World	10	19	2	2	2	25	25	7	7	7	330	330
12.	Expropriation of convertible currencies	385											385
13.	Changes in holdings of monetary gold	43	48	35	15	25	25	25	25	25	25	58	228
	Errors and omissions (net)	200	270	337	317	317	11	11	62	77	77	110	110

a. This table is the summation of the area Tables 6 and 7, except for Item 2 and part of Item 13, which are unallocated by area. Items 11.1 and 11.2 appear only in the area tables because they always are naturally offsetting entries. For methodology, see Appendix B.

Table 6

Communist China: Balance of Payments with the Free World a/
1950-64

Item Number	Item	1950-51		1958-59		1960		1961		1962		1963		1964		Total 1950-64	
		Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
	Current account (net)	286	102	102	104	104	152	37	12	13	13	181					
1.	Merchandise trade (valued f.o.b.)	3,001	1,227	1,311	610	693	555	719	607	621	738	718	1,039	986	7,777	8,295	
3.	Freight and insurance (net)	239	121	121	66	66	76	76	56	56	65	65	95	95	718		
3.1	On international shipments	223	107	107	57	57	73	73	55	55	64	64	95	95	674		
3.2	On coastal shipments	16	14	14	9	9	3	3	1	1	1	1	1	1	44		
4.	Interest payments						5	5	10	43	15	15	49	20	1,105	50	
6.	Unilateral transfers (net)	771	103	103	45	45	46	46	58	58	59	59	59	59	1,220		
6.1	Overseas remittances	811	113	113	60	60	61	61	58	58	59	59	59	59	1,220		
6.2	Financial assistance for covert operations abroad	40	10	10	15	15	15	15	15	15	10	10	10	10	115		
	Capital and monetary gold (net)	274	21	21	35	35	134	7	2	2	2	2	25	23	331		
7.	Credits and grants extended																
7.1	Drawings		28	30	9	9	8	8	13	13	21	21	23	23	132		
7.2	Repayments (including interest)	5	10	10	2	2	2	2	2	2	1	1	1	1	23		
8.	Credits received																
8.1	Drawings						128	2	256	214	347	322	417	360	1,148	898	
8.2	Repayments																
10.	Changes in clearing account balances with the Free World	10	19	19	2	2	2	2	25	25	7	7			37		
11.1	Convertible currency transactions with Communist countries	108	10	10	30	30	33	36	3	3	16	3	3	13	181		
11.2	Ruble receipts from the Free World			2											2		
12.	Expropriation of convertible currencies	385													385		
13.	Changes in holdings of monetary gold	10					15	65	44	44	21	21	12	12	25		
	Errors and omissions (net)	560	153	132	132	132	65	44	21	21	12	12	150				

a Items listed under total balance of payments but not included here are not applicable.

Table 7
Communist China: Balance of Payments with Communist Countries a/
1950-64

Item Number	Item	Million US \$															
		1950-57		1958-59		1960		1961		1962		1963		1964		Total 1950-64	
		Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
	Current account (net)	675	288	1	276	424	409	365	1,026								
1.	Merchandise trade (valued f.o.b.)	5,984	6,392	2,471	1,330	1,280	989	710	904	488	814	421	739	356	13,651	12,158	
3.	Freight and insurance (net)	73	47	26	3	5	13	3	5	5	12	13	13	13	119	119	
3.1	On international shipments	73	44	24	3	5	24	3	5	5	12	13	13	13	114	114	
3.2	On coastal shipments		3	?											5	5	
4.	Interest payments	84	35	13	10	7	10	6	1						156	156	
5.	Other payments and receipts (net)	110	50	12	10	10	10	10	10	10	10	10	10	10	132	132	
	Capital and monetary gold (net)	365	402	197	105	369	326	300							1,126	1,126	
7.	Credits and grants extended																
7.1	Drawings	445	137	69	92	101	108	113							1,065	1,065	
7.2	Repayments (including interest)																
8.	Credits received																
8.1	Drawings	1,404	405	163	86	186	176	290							1,770	1,770	
8.2	Repayments																
9.	Transfer of Soviet-owned assets	330															
11.1	Convertible currency transactions with Communist countries	108	10														
11.2	Trade receipts from the Free World																
13.	Changes in holdings of monetary gold	43															
	Errors and omissions (net)	110	117	122	22	22	62	62	62	62	62	62	62	62	62	62	

a. Items listed under total balance of payments but not included here are not applicable.

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APPENDIX B

METHODOLOGY

Data from sources in Communist China have been used to the greatest extent possible in preparing the estimates of China's balance of payments. Because of the ambiguity or inadequate coverage of most of these data, information from non-Chinese sources has been extensively used to supplement the Chinese source material. Although a few specific figures in this report can be traced to a single source, in most instances the data shown have been computed on the basis of information derived from more than one source. For this reason, source references have been linked to this methodological appendix rather than to the tabulated estimates.

The methodology for each category of international transaction recorded in Tables 5 through 7 is presented by region according to the item number in those tables. For example, the methodology for drawings on credits received from the Free World and from the Communist countries will be found here under Item 8.1 (a) and Item 8.1 (b), respectively. In the case of merchandise trade (Item 1), nonmonetary gold (Item 2), freight and insurance on coastal shipments (Item 3.2), convertible currency transactions with Communist countries and ruble receipts from the Free World (Item 11), and changes in holdings of monetary gold (Item 13), the methodology is explained on a global rather than a regional basis.

Item 1. Merchandise Trade

Merchandise trade includes all commodity exports and imports, valued on an f.o.b. basis. For balance-of-payments purposes, several adjustments must be made in the foreign trade data, which are reported by the Chinese for 1950-58 and are derived from trading partner statistics for 1959-64. It is believed that China records its foreign trade to show the country of destination and origin rather than the country of payment and receipt and, furthermore, that its imports from the Free World are valued on a c.i.f. basis. Therefore, two adjustments have been made in the Chinese foreign trade reports: the first, to place China's merchandise trade with the Free World on an f.o.b. basis, and the second, to represent China's trade by country of payment and receipt. This latter adjustment was made because reexports of Chinese goods by the Eastern European Communist countries averaged almost \$30 million a year between 1953 and 1961. In addition, the following merchandise transactions probably were excluded from official trade data: the food packages that overseas Chinese in Hong Kong sent to China by parcel post; the aid goods that China provided Hungary in 1957; the silver sold by China (for Free World currency) to the USSR in 1961; and the Cuban sugar that China shipped to the USSR in 1964 in part payment of

the 1960 sugar credit. Such transactions have been added to the estimate of trade as shown in Table 8.

The estimates of Communist China's foreign trade for 1950-58 are based on Chinese official data on foreign trade and the trade data of China's trading partners. Because China in recent years has suspended the publication of all trade data, estimates of its foreign trade after 1958 have been derived exclusively from the information of its trading partners. China's foreign trade in 1950-58 as derived from the data of its trading partners approximated the comparable Chinese data for this period; thus the estimate of China's trade for 1959-64 based on trading partners' data can be meaningfully compared with the combined data of the earlier period.

In a unique report published in 1959, Communist China gave the yuan value of total trade for each of the years 1950-58. Apart from this information, the Chinese have released only fragmentary trade reports generally expressed in percentage terms. These data, together with data reported by China's trading partners, permit the calculation of the yuan value of China's trade with Communist and Free World countries. The resulting estimates for 1950-58 are presented in Table 9.

Conversion of the yuan values of China's trade for 1950-58 into US dollars has been made on the basis of the following exchange rates: US \$1 equals 4 yuan in trade with Communist countries and, in trade with the Free World, US \$1 equals 3.2 yuan in 1950, 2.24 yuan in 1951, 2.1 yuan in 1952, and 2.5 yuan in 1953-58. This dual exchange rate system as between China's Free World and Communist trade is not reported by China but is derived from a comparison of the yuan values of trade as reported by China with the ruble and dollar values of trade as reported by or estimated from the trade data of China's trading partners. China's reason for establishing this system is not certain. Such factors as the greater stability of prices and the different commodity mix in trade with Communist countries compared with Free World trade, however, could justify a lower value of the yuan in the Communist trade.* The dollar value of China's trade is presented in Table 10.

Although China has reported exports and imports as shares of total trade (valued in yuan) for each year during 1950-58, the calculation of the dollar value of exports and imports from these data is frustrated by the existence of the dual exchange rate. Consequently, the import-export breakdown of the Chinese data on total trade in dollars has been**

* The use by the Chinese of what amounts to a multiple exchange rate system for converting into yuan the ruble and Free World currency values of trade is discussed in an earlier report. 1/ (For serially numbered source references, see Appendix C.) Whereas that report hypothesized a trinal exchange rate system, data received after its publication suggest that a simpler, dual exchange rate system was put to use.

** Text continued on p. 27.

Table 8
 Communist China: Direction of Foreign Trade: a Balance-of-Payments View ^{a/}
 1950-64

	Million US \$													
	1950-57		1958-59		1960		1961		1962		1963		1964	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
With the Free World	3,470	3,182	1,418	1,275	745	625	777	560	661	607	772	738	1,081	1,039
Adjustments														
Shipping costs on imports from the Free World ^{b/}	-223		-107		-57		-73		-55		-64		-95	
Food shipments by overseas Chinese ^{c/}					5		15		15		10			
Receipts by the Eastern European Communist countries to the Free World		-181		-48		-15		-5						
Total merchandise trade (f.o.b.) with the Free World	3,247	3,001	1,311	1,227	688	610	702	552	621	607	718	738	985	1,039
With the Communist countries	6,392	5,778	2,471	2,843	1,280	1,315	700	954	488	904	421	814	396	721
Adjustments														
Unrecorded trade		25 ^{d/}						30 ^{e/}						18 ^{f/}
Receipts by the Eastern European Communist countries to the Free World		181		48		15		5						
Total merchandise trade (f.o.b.) with the Communist countries	6,322	5,984	2,471	2,891	1,280	1,330	710	982	488	904	421	814	396	732
Total merchandise trade (f.o.b.)	9,569	8,985	3,782	4,118	1,973	1,940	1,439	1,544	1,109	1,511	1,139	1,552	1,382	1,778

a. As reported by the Chinese or as estimated on the basis of data of the originating partners. Unless otherwise indicated, data are from Tables 11 through 19.

b. Data before 1959 are derived from source 2/.

c. See Appendix B, Item 6.1 (a).

d. 3/

e. 1/

f. Cuban sugar shipped to the USSR in part payment of the 1960 sugar credit and already not included in trade as reported by the USSR.

Table 9

Communist China: Direction of Foreign Trade, in Yuan a/
1950-58.

Million Yuan

Year	Total Trade <u>b/</u>	Free World	Communist Countries			
			Total	USSR	Eastern European	Far Eastern
1950	4,150	2,760 <u>c/</u>	1,390 <u>c/</u>	1,282 <u>d/</u>	83 <u>d/</u>	25 <u>d/</u>
1951	5,950	2,059 <u>c/</u>	3,891 <u>c/</u>	2,996 <u>e/</u>	814 <u>e/</u>	81 <u>e/</u>
1952	6,460	1,208 <u>c/</u>	5,252 <u>c/</u>	3,857 <u>e/</u>	1,279 <u>e/</u>	116 <u>e/</u>
1953	8,090	1,853 <u>c/</u>	6,237 <u>c/</u>	4,659 <u>e/</u>	1,370 <u>e/</u>	208 <u>e/</u>
1954	8,470	1,533 <u>f/</u>	6,937 <u>g/</u>	5,082 <u>h/</u>	1,483 <u>f/</u>	372 <u>i/</u>
1955	10,980	1,965 <u>f/</u>	9,015 <u>g/</u>	6,807 <u>i/</u>	1,744 <u>f/</u>	464 <u>i/</u>
1956	10,870	2,685 <u>k/</u>	8,185 <u>k/</u>	5,837 <u>k/</u>	1,870 <u>k/</u>	478 <u>k/</u>
1957	10,450	2,747 <u>f/</u>	7,703 <u>l/</u>	5,183 <u>m/</u>	1,992 <u>f/</u>	528 <u>i/</u>
1958	12,870	3,483 <u>i/</u>	9,387 <u>f/</u>	6,060 <u>i/</u>	2,683 <u>f/</u>	644 <u>i/</u>

a. Data are taken or derived from Chinese data, which apparently exclude Yugoslavia from the grouping "Socialist countries" in reporting the direction of Chinese trade.

b. 5/

c. 6/

d. 7/

e. Trade with each Communist partner is assumed to be in the same proportion to the total trade with Communist countries as reported in source 8/.

f. Residual.

g. 9/

h. Assumed to be 60 percent (see source 10/, where the share was estimated at 59 percent).

i. Estimated, based on data of the trading partners.

j. 11/

k. 12/

l. 13/

m. 14/

Table 10

Communist China: Direction of Foreign Trade
in Dollars ^{a/}
1950-58

Million US \$

Year	Total Trade	Free World	Communist Countries			
			Total ^{b/}	USSR	Eastern European ^{b/}	Far Eastern
1950	1,210	862	348	320	21	0
1951	1,892	919	973	749	204	21
1952	1,868	575	1,313	964	320	29
1953	2,300	741	1,559	1,165	342	52
1954	2,347	613	1,734	1,270	371	33
1955	3,040	786	2,254	1,702	436	116
1956	3,120	1,066	2,054	1,459	475	120
1957	3,025	1,090	1,935	1,296	507	132
1958	3,740	1,386	2,354	1,515	676	161

a. Because of rounding, components may not add to the totals shown.

b. Including trade with Yugoslavia.

derived from the import-export data of China's trading partners. These calculations are noted and explained in Tables 11 through 14 and the results are summarized in Table 15.

Estimates of China's trade for 1959-64 are based on the trade data of China's trading partners. To reflect the value of trade as China would report it, the trade data of Free World countries have been adjusted for (a) time leads and lags in shipping, (b) shipping costs, (c) double counting, and (d) unrecorded transactions. On the other hand, only a few adjustments have been required in the trade data of Communist countries because (a) the Communist countries present their trade data on an f.o.b. basis, (b) reexports of Chinese products by the Communist countries to the Free World almost completely disappeared during this period, (c) no shipping time adjustment is required for*

* Text continued on p. 32.

Table 11.

Derivation of Chinese Communist Trade with the USSR and with the Free World a/
1950-58

Year	Million US \$		(3)	(4)	Million US \$		(6)
	Trade Reported by China	Trade Reported by Trading Partners			Exports to China as Reported by Trading Partners	Imports c/	
1950 e/	320	576			133	188	
1951	749	808	92.7	476	441	308	
1952	964	968	99.6	554	552	412	
1953	1,165	1,172	99.4	698	694	471	
1954	1,270	1,338	94.9	759	720	550	
1955 e/	1,702	1,392	97.5	733	1,058	644	
1956	1,459	1,497	101.1	544	715	744	
1957	1,296	1,282		634	550	746	
1958 f/		1,515			634	881	
With the USSR							
1950	862	849	101.5	439	446	416	
1951	919	845	108.8	530	577	342	
1952	575	590	97.5	320	312	263	
1953	741	696	106.5	373	397	344	
1954	613	621	98.7	323	319	294	
1955	786	819	96.0	391	375	411	
1956	1,074	1,032	104.1	467	486	588	
1957	1,099	1,103	99.6	568	566	533	
1958 f/		1,393		730	730	663	
With the Free World B/							

a. Assuming that the ratio of exports to imports in the trade data reported by the trading partners is the same as in the trade data reported by China.

b. Unless otherwise indicated, column 1 divided by column 2.

c. Unless otherwise indicated, column 3 multiplied by column 4.

d. Unless otherwise indicated, column 5 subtracted from column 1.

e. The wide discrepancies between Chinese and Soviet reports of Sino-Soviet trade in 1950 and 1955 suggest major differences in procedures for recording trade. Because these procedures are more likely to have varied in the reporting of Chinese imports from the USSR (especially aid goods for the Korean War and goods for the joint-stock companies) than in the reporting of Chinese exports, the data on exports as reported by China have been used and are assumed to be identical in value to Soviet-recorded imports from China.

f. Imports and exports as reported by the trading partners.

g. Trade reported by Free World countries has been adjusted for time leads and lags in shipping, shipping costs, double counting, and unrecorded transactions. It also includes trade with Yugoslavina.

Table 12

Derivation of Chinese Communist Trade
with the Eastern European Communist Countries a/
1950-58

Year	Million US \$					
	(1)	(2)	(3)	(4)	(5)	(6)
	Trade Reported by China	Trade Reported by Trading Partners	Reexports of Chinese Goods by the Eastern European Communist Countries b/	Exports to China as Reported by Trading Partners	Imports	Derived Trade Exports c/
1950	21				5	16
1951	204				62	142
1952	320				155	165
1953	342	368	26	189	241	153
1954	371	431	60	241	234	130
1955	436	464	28	234	264	202
1956	467	498	31	264	277	203
1957	498	534	36	277	409	221
1958	671	699	28	409		262

a. Including Albania and excluding Yugoslavia. Some of the difference between the values of trade as reported by China and as reported by the Eastern European Communist countries probably results from seasonal movements in trade and time lags in the recording of this trade; however, the bulk of the difference is accounted for by those Chinese products which are reexported by the Eastern European Communist countries without ever physically entering Eastern Europe. Such Chinese exports moved directly from China to some Western port, whence they were dispatched to the Free World purchaser. These exports are assumed to be recorded by China as exports to the Free World and by the Eastern European Communist countries as imports from China and exports to the Free World. For balance-of-payments purposes, these reexports have been included in China's trade with the Eastern European Communist countries and excluded from China's trade with the Free World (see Table 8).

b. Column 1 subtracted from column 2.

c. Column 5 subtracted from column 1.

d. Derived from Chinese data which indicate an export surplus of about \$11 million. 15/

e. Derived from trade and financial data of the Eastern European Communist countries which indicate these countries' export surpluses to have been about \$20 million in 1951 and \$10 million in 1952.

Derivation of Chinese Communist Trade with the Far Eastern Communist Countries a/
1950-58

Year	Trade Reported by China b/	Trade Reported by Trading Partners			Total c/ e/	Exports on Credit or Grant Basis	Derived Trade	
		North Korea d/	North Vietnam and Mongolia d/	(4)			(5)	Im- ports f/
(1)	(2)	(3)	(3)	(4)	(5)	(6)	(7)	
1950	6	N.A.	N.A.	2	4 h/	1	5	
1951	20	N.A.	N.A.	6	14 h/	3	17	
1952	29	N.A.	N.A.	10	19 h/	5	24	
1953	52	N.A.	N.A.	14	38 h/	7	45	
1954	N.A.	8 i/	10	18	75 j/	9	84	
1955	N.A.	9 k/	13	22	94 l/	11	105	
1956	120	15 k/	19	34	86 l/	17	103	
1957	N.A.	59 k/	23	82	50 l/	41	91	
1958	N.A.	75 m/	31	106	55 l/	53	108	

a. Based on estimates of China's trade on commercial and credit accounts.

b. Including exports under Chinese credits and grants.

c. Excluding exports under Chinese credits and grants.

d. Calculated for 1956 as a residual of column 1 less columns 2 and 3. Miscellaneous and incomplete trade data suggest that trade with these countries increased slightly each year during 1954-56. In 1957, trade rose more rapidly; but in 1958 a decline in trade with Mongolia slowed the overall growth.

e. Total trade with the Far Eastern Communist countries can be calculated for 1954-58 as the sum of columns 2 and 3. During 1950-54, as China restored and expanded its economy, trade probably increased rapidly, although it amounted to a relatively small percentage of the aid goods which China provided to North Korea for its war with South Korea and to Viet Minh forces in Vietnam. Thus total trade during 1950-53 is assumed to amount to about 30 percent of total trade as reported by China.

f. Half of the data in column 4, on the assumption that commercial trade has been balanced each year.

g. Half of the data in column 4 (see footnote d) plus column 5.

h. Residual.

i. 16/

j. 17/

k. 18/

l. Based on announced credit extensions and incomplete data for drawings on credit.

m. Miscellaneous trade data indicate an expansion of possibly 25 to 30 percent above 1957.

Table 14

Communist China: Trade with Yugoslavia a/
1956-58

Million US \$		
<u>Year</u>	<u>Imports</u>	<u>Exports</u>
1956	4	4
1957	4	4
1958	6	1

a. From Yugoslav trade data, adjusted for time leads and lags in shipping and for shipping costs. Chinese trade with Yugoslavia during 1950-55 was negligible.

Table 15

Communist China: Direction of Trade a/
1950-64

Million US \$						
<u>Year</u>	<u>Total</u>		<u>Free World</u>		<u>Communist Countries</u>	
	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>
1950	585	625	446	416	139	209
1951	1,083	809	577	342	506	467
1952	1,024	864	312	263	712	601
1953	1,287	1,013	397	344	890	669
1954	1,289	1,058	319	294	970	764
1955	1,678	1,362	375	411	1,303	951
1956	1,482	1,638	482	584	1,000	1,054
1957	1,434	1,591	562	528	872	1,063
1958	1,826	1,914	724	662	1,102	1,252
1959	2,063	2,204	694	613	1,369	1,591
1960	2,025	1,940	745	625	1,280	1,315
1961	1,487	1,514	777	560	710	954
1962	1,149	1,511	661	607	488	904
1963	1,193	1,552	772	738	421	814
1964	1,477	1,760	1,081	1,039	396	721

a. Data are derived from Tables 11 through 14 and 16 through 19. Trade with Yugoslavia for 1950-58 has been subtracted from China's trade with the Free World and added to China's trade with Communist countries.

much of Sino-Soviet trade (that going by rail), and (d) data are insufficient to calculate the shipping time adjustments for the remaining share of Chinese trade with the European Communist countries. Also, the Far Eastern Communist countries have only irregularly reported their trade with China. Trade with these countries has been estimated from miscellaneous data on total and commodity trade, credit extensions and drawings, and other financial transactions. The estimates of the dollar value of China's trade for 1959-64 are summarized in Table 15 and are derived in Tables 16 through 19.

Item 2. Nonmonetary Gold

In accordance with conventional balance-of-payments procedures, gold reserves of China's monetary authorities are treated as if they are foreign assets, whereas gold held by the nonmonetary sector is treated as a domestic asset, similar to merchandise. Consequently, domestic purchases of gold by the monetary authorities are included in the balance of payments as a credit to "nonmonetary gold" and a debit to "changes in holdings of monetary gold" -- that is, changes in gold reserves. Since the domestic transactions between the monetary authorities and the rest of the economy are mutually offsetting, the net balance of the two items -- nonmonetary gold and gold reserves -- reflects solely international gold transactions.

Because the amount of domestically produced gold which is consumed by domestic industries is believed to be relatively small, the entire annual increment in gold production is counted as a purchase of non-monetary gold and an addition to gold reserves. The value of gold production is based on the relatively few Chinese reports on the country's gold industry in conjunction with gold production data of the 1920's and 1930's. Because the Chinese Communists appeared to give as little attention to the gold industry from 1950 to 1956 as the Chinese Nationalists gave in the 1930's, gold production during these two periods is assumed to have been similar in magnitude. The total value of gold production during 1950-56 is therefore estimated at \$24 million. No production figures were announced in 1957. In 1958, however, China reported that gold production was double that of 1957. ^{19/} Gold production in 1958, considering the failure of the nonferrous metals industry to achieve most of its production goals, is estimated to have been equal to the combined goals (16 tons) announced for only 12 of the 17 gold-producing provinces in China. Thus the value of gold production in 1957 and in 1958 would total \$9 million and \$18 million, respectively. China's increasing interest since 1957 in raising the output of gold and its success in doubling output in 1958 suggest that by 1960 it could have reached the peak level of gold output of the 1920's. On this basis the value of gold production in 1959 and 1960 is estimated at \$27 million and \$35 million, respectively. Because the collapse of the "leap forward" movement curtailed production in almost all fields, annual gold production in the four years that followed probably was lower than the \$35 million produced in 1960 and, accordingly, is estimated

Table 16

Derivation of Chinese Communist Trade with the Free World ^a
1959-64

Millions US\$

Year	Trade Reported by Trading Partners	Shipping Leads and Lags ^{b/}	Double Counting ^{c/}	Unrecorded Trade ^{d/}	Shipping Costs ^{e/}	Derivat Not Inad
Imports						
1959	669.8	6.9	-36.2		51.5	743.0
1960	656.0	52.2	-22.6	2.3	57.1	736.6
1961	663.8	31.7	-16.0	24.4	71.3	773.2
1962	597.8	16.1	-13.5	5.1	55.7	735.4
1963	736.8	-26.0	-10.8	8.7	61.7	770.4
1964 (pre- liminary)	961.0	-13.4	-8.2	46.1	95.1	1,112.6
Exports						
1959	701.2	27.6	-62.6		-51.1	615.1
1960	773.8	-29.7	-69.9		-19.1	655.1
1961	651.8	4.1	-64.5	15.3	-18.7	618.0
1962	784.9	-69.5	-74.6	10.4	-44.8	616.5
1963	859.4	17.0	-90.6	4.3	-51.8	730.7
1964 (pre- liminary)	1,150.7	45.5	-91.3	5.8	-71.4	1,139.2

a. Because of rounding, components may not add to the totals shown.

b. Adjusted to account for the time difference between China and Free World countries in recording a specific trade transaction. For countries of Western Europe, Latin America, and Western Africa, exports during the 12 months ending 31 October in each year and imports during the 12 months ending 28 February in the following year represent Chinese imports and exports, respectively, for the calendar year. Similarly, for all other countries except Japan, Hong Kong, Macao, and Taiwan, for which no adjustments are made, exports during the 12 months ending 30 November in each year and imports during the 12 months ending 31 January in the following year represent Chinese imports and exports, respectively.

c. Adjusted to avoid duplicating reexports recorded as trade with China both by the reexporter (mainly Hong Kong) and the country of origin or of final destination. Reexports by Hong Kong of Chinese goods are estimated by comparing Hong Kong's exports to Free World countries with these countries' reported imports from Hong Kong. Reexports by Hong Kong of Western goods to China are reported by Hong Kong.

d. Adjusted to account for Chinese purchases of Free World commodities for direct delivery to other countries that were reported by the Free World exporter as an export to a country other than China.

e. In using the trade statistics of China's Free World trading partners to arrive at China's exports on an f.o.b. basis and imports on a c.i.f. basis comparable with the trade data for 1950-58, a deduction must be made for the shipping costs included in the Free World's value of imports from China, and an addition must be made for the shipping costs which are excluded by the Free World from its value of exports to China. Shipping costs on Free World exports are calculated as a constant percentage of the reported export value: 10 percent for exports of Western Europe, Latin America, and Western Africa (where the average voyage time to China is between one and two months) and 5 percent for all other countries. For Free World imports, the percentages are 15 percent for Western Europe, Latin America, and Western Africa and 5 percent for all other countries with the exception of Hong Kong, Macao, and Taiwan. Because the recent large purchases of grain have significantly affected the average shipping cost percentages since 1961, shipping costs now are calculated separately for China's grain imports by applying average freight rates (for grain shipments to China) to the volume of grain imports; and the shipping costs on the remaining value of trade are calculated on the basis of the above-stated shipping cost percentages.

Table 17

Communist China: Trade with the Soviet Bloc and Yugoslavia a/
1959-64

Million US \$

Year	USSR		Eastern European Communist Countries ^{b/}		Yugoslavia	
	Imports	Exports	Imports	Exports	Imports	Exports
1959	955	1,100	325	329	1	3
1960	817	848	339	301	1	1
1961	367	551	165	158		Negl.
1962	233	516	78	148	Negl.	Negl.
1963	187	413	71	157		Negl.
1964	135	314	86	148	Negl.	Negl.

a. Compiled from trade statistics of the trading partners.

b. Including Albania. The value of exports in 1959, 1960, and 1961 has been reduced by the value of reexports to the Free World estimated at \$20 million, \$15 million, and \$5 million, respectively. Reexports are believed to have been negligible since then. (For methodology, see Table 12.)

Table 18

Communist China: Trade with the Far Eastern Communist Countries a/
1959-64

Million US \$

Year	Imports	Exports
1959	88	159
1960	91	155
1961	86	155
1962	88	158
1963	90	161
1964	94	160

a. Based on miscellaneous and incomplete trade data of the Far Eastern Communist countries and information on the extension and implementation of Chinese credits and grants. In the absence of clearing account data, commercial trade is assumed to have been balanced between exports and imports. China's aid deliveries were largely estimated on the assumption of a straight-line drawing of credits and grants.

Table 19
 Communist China: Trade with Cuba a/
 1960-64

Year	Million US \$	
	Imports	Exports
1960	32	10
1961	92	80
1962	89	82
1963	73	81
1964	81	91

a. Compiled from Chinese and Cuban sources 20/ but excluding shipping costs (which the Cuban sources apparently included), which are estimated at 10 percent of the value of imports. Cuban trade with China for 1959 is included in the trade of the Free World with China.

at \$25 million annually for 1961-64. In addition to purchases of domestically produced gold, China during the wu fan movement of 1958 is estimated to have expropriated \$15 million worth of privately held gold as well as foreign currencies. 21/

Item 3.1 (a) Freight and Insurance on International Shipments
(Free World)

Estimates of China's payments for freight and insurance on international shipments are based on the assumption that all the goods in its Free World trade are transported in Free World vessels and that the purchaser pays the cost of the transportation either directly or indirectly. China has practically no oceangoing fleet and must use Free World ships and the ships of other Communist countries. Shipping and financial data suggest that China's ruble payments to vessels of other Communist countries transporting imports from the Free World are roughly equivalent to its Free World currency payments to Free World vessels transporting goods from the Eastern European Communist countries. Because of the high costs of land transport across the USSR, only a limited amount of China's Free World trade moves by land.

Freight and insurance costs are estimated by geographical area as a constant percentage of the value of China's imports from each area of the Free World. For Western Europe, Western Africa, and North and South America, these shipping costs are estimated at 10 percent of the f.o.b. value of China's imports. For all other countries, shipping costs are estimated at 5 percent of the f.o.b. value. 22/ The results of this simplified method of estimating shipping costs when used for the three-year period 1954-56 have been found to be roughly comparable to estimates

derived from actual freight rates and trade data expressed in physical volume terms.

Item 3.1 (b) Freight and Insurance on International Shipments
(Communist Countries)

China, like all other Communist countries, uses its own companies to insure imports from other Communist countries. Although China places some reinsurance with other Communist countries, freight costs probably account for almost all of the shipping expenses that require international payments. Because the USSR, North Korea, North Vietnam, and Mongolia have contiguous borders with China and because their exports are priced f.o.b. the border, freight costs on imports from these countries are negligible insofar as the balance of payments is concerned. Although China incurs some freight costs for ocean shipments from them, such costs probably are offset by earnings from these countries' goods transiting China. Thus the main freight costs paid to other Communist countries are incurred in trade with the European Communist countries and, since 1960, with Cuba.

Freight costs on Chinese imports from the European Communist countries are largely incurred on rail shipments across the USSR. These costs are estimated in Table 20. In addition, until 1962, China's payments for freight costs on its seaborne imports from these countries (as calculated by applying freight rates to the estimated volume of cargo) were largely offset by earnings from the China-Polish Ship Brokers Company, Chipolbros (as derived from Polish reports of ocean shipping operations and earnings). Because of the sharp decline in China's trade with the European Communist countries since 1960, Chipolbros's ships have increasingly participated in Free World trade and therefore produced small (net) earnings during 1962-64.

China's imports of sugar from Cuba have incurred relatively large freight payments. Because China has used Free World ships almost exclusively, these payments have been in Free World currencies. On the basis of average freight rates for sugar exports to China and the volume of sugar imported annually by China as reported in Cuban export statistics, these freight payments are estimated as follows:

Year	Volume <u>23/</u> (Metric Tons)	Average Freight Rate <u>24/</u> (US \$ per Metric Ton)	Freight Costs (Million US \$)
1960	476,500	13.20	6.3
1961	1,032,100	16.10	16.6
1962	937,900	12.70	11.9
1963	500,900	13.70	6.9
1964	{ 193,000 a/ 368,400	{ 10.30 a/ 15.50	{ 2.0 a/ 6.0

a. To the USSR on Chinese account.

Table 20

Communist China: Freight Costs on Overland Imports
from the Eastern European Communist Countries
1950-64

<u>Year</u>	<u>Imports a/ (Thousand Metric Tons)</u>	<u>Freight Costs b/ (Million US \$)</u>
1950	Negl.	Negl.
1951	10	1.5
1952	10	1.5
1953	20	3.0
1954	80	12.0
1955	80	12.0
1956	100	15.0
1957	100	15.0
1958	150	22.5
1959	125	18.8
1960	100	15.0
1961	50	7.5
1962	25	3.8
1963	10	1.5
1964	10	1.5

a. Derived from the value of China's trade with the Eastern European Communist countries, taking into account seaborne shipments, the estimated commodity mix of overland trade, and price data. 25/

b. Calculated on the basis of an average rail freight rate of \$150 per metric ton for transporting manufactured goods from a roughly approximate geographical center of Eastern Europe (300 kilometers west of the Soviet-Czechoslovak border) to the Sino-Soviet border. 26/

Item 3.2 Freight and Insurance on Coastal Shipments

Payments in clearing rubles and Free World foreign exchange for shipping costs in China's coastal trade are estimated by applying an appropriate freight rate to the volume of goods carried by ships of other Communist countries (mainly the USSR) and Free World ships in this trade. Estimates of these payments are presented in Table 21.

Item 4 (a) Interest Payments (Free World)

Because of wide variations in payment terms, China's interest payments on its borrowings from the Free World have been calculated for each contract. In the case of complete plant purchases, interest costs have been calculated by applying an estimated interest rate to the

Table 21

Communist China: Payments of Free World Foreign Exchange
for Shipping Costs in the Coastal Trade
1950-64

Year	Million Metric Tons				Shipping Costs		Total Shipping Costs e/	
	Total Coastal Trade	Goods Moved on Foreign Ships a/	Goods Moved on Ships of Other Communist Countries	Goods Moved on Free World Ships b/	Freight Rate Index c/ (1956 = 100)	Shipping Costs (US \$ per Metric Ton) d/	Paid in Free World Foreign Exchange	Paid in Clearing Rubles
1950	1.0	0.1		0.1	56	2.24	Negl.	
1951	3.2	0.3		0.3	121	4.84	2	
1952	5.4	0.4		0.4	74	2.96	1	
1953	5.6	0.5		0.5	57	2.28	1	
1954	9.4	0.8		0.8	61	2.44	2	
1955	9.0	0.7		0.7	85	3.40	2	
1956	11.0	0.9		0.9	100	4.00	4	
1957	13.3	1.1		1.1	82	3.28	4	
1958	19.7	2.6	0.3	2.3	51	2.04	5	1
1959	31.8	5.1	0.9	4.2	52	2.08	9	2
1960	35.0	5.1	0.9	4.2	54	2.16	9	2
1961	24.0	1.2		1.2	55	2.20	3	
1962	30.0	0.6		0.6	51	2.04	1	
1963	33.0	0.6		0.6	56	2.24	1	
1964	N.A.	Negl.		Negl.	56	2.24	Negl.	

a. The volume for 1950-56 is estimated to have been at the same proportion of total coastal trade as in 1957 (8.3 percent).

b. Goods moved on foreign ships less goods moved on ships of other Communist countries.

c. From the Norwegian index of voyage charters (tramps). 27/

d. An average freight rate estimated for 1956 has been adjusted annually by the freight rate index. The freight rate for 1956 is an average of rates for coal and salt shipments -- rates which are representative of the bulky commodities moving in coastal trade. 28/

e. The product of the annual shipping cost per metric ton and the volume of goods moved on ships of other Communist countries and Free World ships.

average value of credits outstanding at the beginning of the year and at the end of the year. Although Western lenders generally have not revealed the interest rates on credits extended to the Chinese, the few known rates suggest an average annual interest rate of about 5 percent. 29/ For other purchases financed by credits, chiefly wheat, interest probably is paid at the time the credit is drawn. Consequently, these interest costs are calculated by applying the above interest rate, in accordance with the payment terms of each contract, to the value of shipments reported by each exporting country. Refunds of interest, arising because of China's sizable advance payments in 1963 and 1964, have been deducted from these interest costs. The value of such interest refunds is calculated on the assumption that prepayments were made on the average four months prior to maturity.

Item 4 (b) Interest Payments (Communist Countries)

For methodology and sources, see Item 8.2 (b).

Item 5 (a) Other Payments and Receipts (Free World)

Other noncommercial payments and receipts, such as profits from foreign investments and travel income and expenditures, are assumed to be relatively small and essentially in balance. China's investments abroad have been largely concentrated in Hong Kong and in the ownership of a few branches of the Bank of China in other countries. In Hong Kong the Chinese Communists have owned or controlled about 14 banks since 1950, and they have increased their investments in other enterprises which now number between 30 and 40 retail stores and a few miscellaneous companies like the China Travel Service and the China Resources Company. Scant information suggests that investments and therefore earnings in all firms, including the banks, have been quite small compared with trade earnings from Hong Kong.* For example, the profit of the Bank of China office was less than \$1 million in 1964. 31/ Another source speculates that profits -- of which only a part accrue to the Chinese -- of Communist-owned or controlled retail outlets in Hong Kong amounted to about \$2 million in 1965. 32/ Partly because China has consistently invited a large number of foreign diplomats and businessmen to visit the country at its expense, its foreign exchange outlays for travel and propaganda probably greatly exceed receipts and essentially offset investment income.

According to a New York Times article, China's investment income from Hong Kong has made substantial increases each year since 1963. 33/

* Although this Office estimated that China's nontrade earnings (excluding overseas remittances) from Hong Kong averaged \$30 million a year during 1958-64, 30/ these earnings probably included foreign exchange earnings from Chinese exports to other countries but remitted through Hong Kong's banking channels (see below).

The reports on which this estimate obviously is based provide information on China's total foreign exchange receipts from Hong Kong. ^{34/} By subtracting from this total the Chinese exports to Hong Kong and overseas remittances, the residual receipts (arbitrarily assumed to be largely investment income) can be calculated at about \$50 million in 1963 and more than \$100 million in 1964. But annual income of \$100 million, even with a 25-percent return on investment, implies total investments of \$400 million -- an amount that appears to be greatly in excess of known Chinese Communist investments in Hong Kong. It seems more likely that these residual receipts may in large part represent export earnings channeled from other countries through Hong Kong to China and that they may therefore already be included in the merchandise account. In any case, however, it is difficult to explain the sizable fluctuations which have occurred in these receipts since 1957.

Item 5 (b) Other Payments and Receipts (Communist Countries)

An analysis of China's international accounts with the USSR indicates that China during 1950-60 made sizable payments in addition to the specific payments which have been estimated on current and capital account. Although the USSR in 1961 funded \$320 million in Chinese clearing debts accumulated through 1960, this sum apparently did not cover China's cumulative clearing deficit with the USSR, which probably amounted to \$374 million at the end of 1960. In 1961, China had a surplus of \$240 million on current account, comprising an export surplus of \$230 million (after excluding imports of sugar financed by long-term credits) and is estimated to have had \$10 million of other, unspecified earnings. This was more than sufficient to cover the estimated debt repayment of \$186 million due in 1961 and suggests that the difference -- \$54 million -- was used to settle a clearing deficit carried over from 1960 in excess of the \$320 million funded clearing debt. Although the additional earnings of \$54 million could have been used to prepay its long-term indebtedness, China reportedly did not commence such prepayments until the following year. Thus the total cumulative indebtedness on China's clearing account with the USSR at the end of 1960 would have amounted to \$374 million. Net cumulative payments to the USSR which have been specifically estimated, however, total only \$202 million, leaving \$172 million unaccounted for. It is likely that this sum represented payments for technical assistance and other noncommercial payments rather than capital expenditures. The technical assistance payments would thus represent payments for the services of Soviet technicians other than those associated with specific Soviet-built industrial installations, which have been recorded in the merchandise account.

These unaccounted-for payments probably fluctuated roughly in proportion to the volume of trade. Thus during 1950-57 these (net) payments would have increased rapidly from perhaps \$5 million to \$20 million a year. During the first two years of the "leap forward," payments

may have reached a peak of \$25 million annually. The Soviet withdrawal of technicians in mid-1960 probably brought these payments to an end, so that for the whole year 1960 payments are estimated to have totaled \$12 million.

With a decline in payments to the USSR as a result of the collapse of the "leap forward" and the intensification of the Sino-Soviet dispute, plus an increase in transit receipts from the USSR associated with the expansion of Soviet trade with North Korea and North Vietnam, China's receipts from the USSR probably exceeded payments from 1961 on. These additional receipts are estimated at a minimum of \$40 million (prorated at \$10 million annually) during 1961-64. As a result, China's total receipts from the USSR during these four years are just sufficient to cover the repayments on its long-term debt to the USSR.

In the case of the Eastern European Communist countries (excluding Albania), almost all of the receipts and payments have been accounted for. By the end of 1964, China's estimated payments to these countries exceeded receipts by less than \$30 million. This estimate is consistent with China's claim that its foreign debts (apparently referring to the clearing and long-term debts with Communist countries) had been liquidated some time in 1965 and with the few available statistics for trade between China and the Eastern European Communist countries in 1965, which show a small export surplus -- \$4 million compared with \$10 million in 1964 -- with Poland after nine months of 1965.

Item 6.1 (a) Overseas Remittances (Free World)

Although remittances to China from Chinese residing in foreign lands are inadequately reported, it is known that these transfers are almost entirely channeled through Hong Kong. Hence the estimate of total overseas remittances that is derived from Hong Kong banking data, supplemented by reports of foreign exchange received in connection with unilateral transfers in kind (see Table 22), is believed to cover practically all such transactions.

The value of remittances handled by Hong Kong banks is estimated on the basis of Bank of China remittance data reported annually and data on remittances handled by other Hong Kong banks in 1956. For years other than 1956, the share of the Bank of China in total remittances is assumed to be equal to its share in 1956.

Beginning in 1961, these traditional currency remittances were supplemented by remittances in the form of fertilizer and food shipments. In the case of fertilizer remittances, overseas Chinese have forwarded currency to the Bank of China in Hong Kong, which then arranged the delivery of fertilizer to the mainland recipient. The value of these remittances is available for every year. In the case of food shipments, which have followed a different pattern, the value of foreign currency earnings is not available. Consequently, foreign currency earnings from

Table 22

Communist China: Personal Remittances from Overseas Chinese
1950-64

Million US \$				
Year	Remittances Through the Bank of China in Hong Kong	Total Currency Remittances <u>a/</u>	Other Remittances <u>b/</u>	Total Remittances from Overseas Chinese
1950	12.8	44.8		44.8
1951	38.2	133.6		133.6
1952	39.0	136.4		136.4
1953	32.2	112.6		112.6
1954	33.4	116.8		116.8
1955	30.6	107.0		107.0
1956	26.1	91.3		91.3
1957	19.5	68.2		68.2
1958	18.3	64.0		64.0
1959	14.0	49.0		49.0
1960	15.7	54.9	5.0	59.9
1961	10.3	36.0	24.8 (9.8)	60.8
1962	8.3	29.0	28.7 (13.7)	57.7
1963	13.7	47.9	10.0	57.9
1964	16.9	59.1		59.1

a. Remittances by overseas Chinese through the Bank of China in Hong Kong in 1956 were 28.6 percent of total currency remittances by overseas Chinese. This percentage was assumed to hold true for other years as well and was used to estimate total currency remittances for those years.

b. Fertilizer remittances included in the totals are shown in parentheses.

Food shipments have been estimated on the basis of (1) the reported foreign currency earnings of China in Hong Kong net of trade earnings and other overseas remittances and (2) miscellaneous reports of customs and postage collections and food parcel purchases. These food shipments were mainly sent by parcel post and have not been recorded in Hong Kong's trade statistics.

Item 6.2 (a) Financial Assistance for Covert Operations Abroad
(Free World)

China's covert financial assistance abroad has been channeled mainly to Southeast Asia and Japan, reflecting the traditional Chinese influence and interest in these areas. Covert activities in other

areas have increased with the intensification of the Sino-Soviet dispute, but assistance to them probably is still considerably less than \$5 million annually.

Although such assistance generally has been small, China in some years has made sizable contributions to Communist elements in Japan and Indonesia. In 1951, China reportedly established a special fund of \$5 million to finance subversive activities in Indonesia. ^{35/} Chinese contributions to one Japanese organization in 1957 were estimated at a minimum of \$3.5 million. ^{36/} Although other known contributions to Japanese organizations have been small, total contributions to all such organizations during 1950-57 must have been at least \$5 million. In 1960, China reportedly spent more than \$5 million to support the special antitreaty demonstrations in Japan. ^{37/}

In addition, China has purchased large quantities of Southeast Asian currencies and US dollars in the Hong Kong free market, apparently to finance insurgent movements and other covert activities in Southeast Asia and other areas. Estimates of these currency purchases, which are made by the Po Sang Bank, Hong Kong, are derived from reports of that bank's actual purchases and are supplemented by reports of financial transfers to it from the Hong Kong branch of the Bank of China. In view of the rather extensive reporting of these data, the total of the reported transactions probably approximates the actual total value of these currency purchases for 1958-64. But for 1950-57, information is more limited, and average annual currency purchases during this period are estimated at about 75 percent of the average annual purchases in 1958-59. Estimates of currency purchases by the Po Sang Bank for covert operations are \$30 million for 1950-57, \$10 million in 1958-59, \$10 million in 1960, \$15 million in 1961, \$15 million in 1962, \$10 million in 1963, and \$10 million in 1964.

Item 7.1 (a) Credits and Grants Extended: Drawings (Free World)

Estimates of drawings are taken from source ^{38/}. Drawings in 1964, however, have been reduced by \$12.6 million, which represents a funding in 1965 of a Chinese clearing credit to Burma.

Item 7.1 (b) Credits and Grants Extended: Drawings (Communist Countries)

Drawings by Communist countries against Chinese credits through 1959 are fairly reliably estimated from data on actual aid expenditures; but since that year, estimates of the drawings have been derived from scattered references on aid and trade. China's budget reports gave total drawings by all countries during 1954-59. ^{39/} The value of drawings by Communist recipients was calculated by subtracting from this total the independently estimated drawings by Free World countries (see Item 7.1 (a)). The value of drawings since 1959 is the summation of estimates for each recipient Communist country, based on the reported value of credit extensions and related trade and aid data. Generally,

annual drawings are assumed to have been equivalent to the value of the credit extension prorated over the effective period of the credit as announced. In the case of Cuba, China has agreed to fund the annual clearing credits. Thus drawings essentially represent the sum of China's export surplus with Cuba plus shipping costs, of which all but an amount estimated at \$3 million a year have been paid for on Sino-Cuban clearings.

Item 7.2 (a) Credits and Grants Extended: Repayments (Free World)

Of credits extended by China to the Free World, only Indonesia has made repayments to date.

Item 7.2 (b) Credits and Grants Extended: Repayments (Communist Countries)

Hungary is the only Communist country known to have made repayments to China, and repayment terms have been reported for only one of the two credits that China extended to it in 1957. On the assumption that the repayment terms of both credits are the same, Hungary would have been scheduled to make repayments in annual installments of \$5 million during 1960-69. ^{40/} Because repayments of credits extended to Communist countries usually are not scheduled to begin until after drawings are completed, credit repayments from other Communist countries are not yet due.

Item 8.1 (a) Credits Received: Drawings (Free World)

To finance many of its purchases of grain, fertilizer, and machinery following the collapse of the "leap forward" movement, China obtained from the Free World special commercial credits with payment terms varying from 6 to 18 months in the case of grain and fertilizer and up to 5 years in the case of machinery and equipment. The value of these credits has been calculated for each contract or transaction. Credits received on grain purchases (estimated at about \$950 million for the four years 1961-64) are calculated by applying the stated credit terms per contract to the appropriate monthly or quarterly trade data of each exporting country. Fertilizer imports from Western Europe amounted to a total of about \$80 million for 1962-63 and probably were financed in full on the basis of payments deferred for one year (with apparently one exception, which was a contract for 18 months). Japanese exporters of fertilizer provided limited credits in 1963; they exported \$5.5 million worth of ammonium chloride on 18-month credit terms but exported \$18 million worth of urea on 180-day credit terms. Because less than half, or \$8 million worth, of the urea was exported in the first half of the year, net credits received against urea imports from Japan during the year amounted to only \$10 million. Other credits extended in 1963 include the financing of \$2 million worth of Japanese agricultural machinery exported on 18-month terms; \$2.6 million worth, or 80 percent, of the value of Japanese steel products exported on 2-year deferred payment terms; and nearly \$6 million worth of British planes with repayment scheduled over 5 years. In 1964, several credits were extended

against complete plant imports and are estimated to total about \$37 million. Furthermore, Japan extended more than \$50 million in short-term credits on its fertilizer exports to China in 1964.

Item 8.1 (b) Credits Received: Drawings (Communist Countries)

The USSR and some Eastern European Communist countries have provided credits to China. Those extended by Eastern Europe were clearing credits, funded in 1961, for which no value has been reported. The total value of credits which China has received from the USSR is estimated to amount to \$1.8 billion. Although these credits are considered in this report as part of China's "foreign debt," China apparently differentiates between short-term and intermediate-term commercial credits on the one hand and long-term developmental credits on the other. Thus when China speaks of its "foreign debt" it usually refers to the developmental credits received before 1961. In their controversy with the USSR the Chinese refer to the so-called Korean War credits. China claims that the USSR is now demanding repayment of what were originally stipulated as grants. A comparison of the respective credit information of China and the USSR suggests that these credits may total as much as \$500 million, ^{41/} but, insofar as can be determined, the imports which they financed have been excluded from China's trade data. (China's revision of its trade data in the mid-1950's may reflect the expunging of the goods received under these grants from the trade data.) In view of the fairly complete budget and trade data for 1952-60, it is unlikely that other large credits exist over and above those reported.

Through 1960, China had received about \$1,404 million in Soviet long-term developmental credits. Although the Chinese reported that the value of Soviet credits during 1950-57 totaled 5,294 million yuan ^{42/} (\$1,324 million at the exchange ratio of 1 yuan equals \$0.25), it is likely that an additional credit of \$80 million was extended some time before 1952. ^{43/} This is suggested by Chinese budget data, which showed what appeared to be a foreign loan repayment of this amount in 1952. This conclusion is further supported by an unofficial Soviet report ^{44/} that total credits extended to China amounted to \$1.4 billion. Moreover, a comparison of total repayments with total credits received (as reported by the Chinese) suggests either that this credit should be included or that China paid unrealistically high interest charges. According to budget data, no credits were drawn during 1958-60.

In 1961, China obtained two special interest-free credits from the USSR. The first was a funding of a clearing debt of \$320 million, repayable by the end of 1965. The second credit covered Chinese imports of sugar from the USSR valued at nearly \$46 million in the Soviet official trade statistics. The sugar loan was scheduled to be repaid in kind during 1964-67 -- 100,000 tons (\$9 million) a year in 1964 and 1965 and 150,000 tons (\$14 million) a year in 1966 and 1967.

Item 8.2 (a) Credits Received: Repayments (Free World)

According to all reports, China has made credit repayments either on schedule or in advance. Estimates of repayments, therefore, are based on the stated repayment terms of each contract, supplemented by the value of advance repayments in 1962-64. The value of the advance payments was reported for 1962. ^{45/} For 1963 and 1964 the value of these payments has been estimated on the assumption that most of the outstanding credits were prepaid by roughly three to six months, as has been reported for the Australian credits in 1963. ^{46/}

Item 8.2 (b) Credits Received: Repayments (Communist Countries)

The Chinese have reported the total value of their debt repayments to the Communist countries, including interest charges. Chou En-lai stated that, of China's total foreign debt (principal plus interest) amounting to \$1,560 million, 99 percent had been repaid by the end of 1964 and the remaining \$19 million was to be prepaid, apparently from the 1964 export surplus. ^{47/} Other Chinese reports indicate that the interest-free funded clearing debt of 1961 had been paid in full by the end of 1964. The USSR has reported receiving 163,000 tons of sugar in 1964 as partial repayment of the sugar loan of 1961. ^{48/} It is likely that nearly 30,000 tons were also en route to the USSR from Cuba on Chinese account, so that about \$18 million of the sugar loan -- the equivalent of the first two scheduled annual payments -- would have been repaid by the end of 1964. Thus debt repayments during 1950-64 total \$1,898 million,* of which \$1,742 million were payments against the principal.

This sum of debt repayments closely approximates the cumulative total of annual repayments derived from budget and trade data. Annual repayments for 1954-60 have been previously estimated on the basis of Chinese budget data. ^{49/} For the earlier years, 1950, 1951, and 1953, repayments were assumed to have represented interest charges only and were calculated at about 1 percent of outstanding credits at the end of the preceding year plus $\frac{1}{2}$ percent of drawings during the year. The value of the repayment in 1952 was calculated at \$84 million -- \$4 million in interest in addition to the budgeted \$80 million repayment. ^{50/} Interest payments during 1950-54 are calculated to have been about 1 percent of outstanding credits and, beginning in 1955, about 2 percent of outstanding credits (excluding the interest-free credits received in 1961). Thus total interest payments during 1950-64 amounted to \$156 million. The debt repayment for 1961 was assumed to have been slightly greater than in 1960, in line with the gradual increase in repayments in the preceding five years. But for the following years, when repayments became commonplace, debt repayments probably rose

* Because the \$19 million prepayment of the foreign debt scheduled for 1965 came from the 1964 export surplus, it has been considered as a payment in 1964.

sharply in value and were in fact equal to China's export surplus with the USSR plus other net receipts. The value of the debt repayment in 1964 -- \$200 million -- is calculated as the difference between the reported total of debt repayments -- \$1,898 million -- and the cumulative total of the estimated annual repayments through 1963 -- \$1,698 million.

Item 9 (b) Transfer of Soviet-Owned Assets in China (Communist Countries)

In 1955 the USSR transferred to China its assets in the Port Arthur-Dairen area and in the Sino-Soviet joint stock companies and provided a credit, probably of equal value, to facilitate China's payment for them. The value of this credit, and therefore of China's purchases of foreign-owned assets, has been derived from China's reported total credit drawings for 1955 51/ less the estimated value of drawings against other Soviet credits. The value of these other drawings in 1955 is calculated at \$85 million on the following assumptions: (1) these drawings were against the \$130 million Soviet credit extended in October 1954, (2) the 1954 credit was fully drawn during 1954-57, (3) drawings for the final two or three months of 1954 amounted to \$10 million, and (4) the total reported credit drawings of \$35 million in 1956 and 1957 52/ represented drawings under the 1954 Soviet credit. Inasmuch as credit drawings, according to budget data, totaled about \$415 million in 1955, the value of China's purchases of Soviet-owned assets (by subtraction) amounted to \$330 million.

Item 10 (a) Changes in Clearing Account Balances with the Free World

Estimates of changes in clearing account balances are based on a variety of sources which provide information for most countries having clearing arrangements with China, including nearly all of the countries (Cambodia and Morocco excluded) that carry on a sizable trade with China. The countries for which no information is available probably accumulate only relatively small clearing imbalances, which may to some extent be offsetting. Countries for which clearing balances have been estimated are Burma, Ceylon, Finland, Ghana, Indonesia, Iraq, Syria, and the United Arab Republic (UAR). Estimates of China's clearing balances with these countries are derived from trade data, actual clearing balance records, and reports of foreign exchange payments either through or outside the clearing account. To reconcile trade with clearing data for some countries requires the assumption that the difference between the trade and clearing imbalances represents foreign exchange payments, although few such exchange payments have been reported.

Item 11.1 (a) and (b) Convertible Currency Transactions with Communist Countries

Estimates of convertible currency payments by Communist China to other Communist countries have been derived from a Polish report of a

Chinese convertible currency payment of about \$10 million for Polish exports of iron and steel products to China in 1956 ^{53/}; the Chinese credit extension to Hungary of \$25 million in convertible currency ^{54/}; and numerous references to Chinese convertible currency payments for other commodity purchases and shipping services. (Convertible currency payments for freight costs on Cuban sugar shipments to China are estimated in Item 3.1 (b)). In 1961, China sold silver to the USSR for convertible currencies amounting to about \$30 million. In recent years, China has also received some convertible currencies for miscellaneous shipping services, including an amount estimated at \$3 million a year from Cuba since 1961 (see Item 7.1 (b)).

Item 11.2 (a) and (b) Ruble Receipts from the Free World

In 1959, Burma settled its clearing indebtedness with China by transferring part of a clearing credit with the USSR to China's account with the USSR. ^{55/} Under this trilateral arrangement, Burma credited its clearing account with the USSR and debited its clearing account with China. China, in turn, debited its clearing account with the USSR and thus acquired a claim against Soviet goods in place of an equivalent claim against Burmese goods.

Item 12. Expropriation of Convertible Currencies

Because China's foreign exchange reserves were estimated to have increased from practically nothing to about \$100 million during 1950 ^{56/} at the same time that net earnings on international account probably were negligible (remittance receipts from overseas Chinese were essentially offset by an import surplus with the Free World), the entire amount of \$100 million has been assumed to be convertible currency absorbed from the private sector. Although this sum would have just covered the estimated deficit in 1951 in its Free World accounts, China would have needed a larger working balance of foreign exchange, which it may have obtained by collecting an additional \$100 million from the private sector during 1951. It is known that in the early 1950's the Communists absorbed large quantities of Hong Kong dollars and other convertible currency which had been extensively used for many years by the native population in preference to the inflated domestic currency. In addition, during the course of the wu fan movement of 1952, China is estimated to have expropriated \$200 million in gold and other foreign exchange privately held. ^{57/} As gold expropriations reportedly totaled \$15 million, the balance of \$185 million would represent convertible currency expropriations.

Item 13. Changes in Holdings of Monetary Gold

For an explanation of the balance-of-payments concept and an estimate of the amount of gold purchased from the domestic sector, see Item 2.

China has exported small amounts of gold, mainly during 1950-57 and in 1961. In the early 1950's the government sopped up private holdings of gold, some of which were probably surreptitiously sold in Hong Kong. ^{58/} One report indicated that China sold about \$3 million of gold in April 1950. The relative scarcity of other reports of gold sales in contrast to the large number of similar reports of silver sales suggests that China sold little gold, possibly no more than \$10 million, to the Free World in the early 1950's. China's entire gold production during 1950-57, estimated to amount to \$33 million, probably was exported to the USSR. In 1961, China was again short of foreign exchange and exported \$15 million of gold, which was sold by the USSR on China's behalf for convertible currency. ^{59/} A negligible amount of gold was also sold by China to the United Kingdom in 1961. (In 1965, China purchased about \$135 million worth of gold; for the implications of this gold buying, see the text.)

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APPENDIX C

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