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Draft Contribution to EIC-R1-S6

COMMUNIST CHINA'S 1956 TRADE AND THE TRANSPORT INVOLVED

VI. Developments at End of 1956 and During 1957

A. Impact of Suez Canal Closure on Communist China's Trade and Transport

1. Shipping

Probably the most significant development affecting shipping engaged in Chinese Communist foreign trade in 1956 was the closing of the Suez Canal at the end of October. Even under normal conditions, the inadequacy of shipping is a serious weakness in the overall Sino-Soviet Bloc supply system, especially for Communist China, about half of whose foreign trade is seaborne. 1/ The Bloc utilizes only a small part of its relatively limited total merchant fleet capability to carry its foreign trade. As a result, it must charter a large amount of non-Bloc tonnage each year. 2/ China, whose small merchant fleet operates almost exclusively between its coastal ports, is particularly dependent on non-Bloc shipping to convey its seaborne international trade. Normally, over 80 percent of the number of vessels carrying commodities to and from China are of non-Bloc registry. 3/ With somewhat less than half of China's seaborne trade conducted with Western Europe and the European Bloc, the prolonged closure of the Suez Canal emphasizes some of the important limitations in extended trade routes as avenues of supply.

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a. Disruption of Shipping as a Result of the Suez Canal Closure

Chinese trade with Western Europe, which accounted for [to be filled in later] percent of the total volume in 1956 and virtually all of which moves by sea, seemed likely to be most seriously affected by the closure of the Canal. Although considerably less in volume, Sino-Satellite trade would be likely to suffer also, since about three-quarters normally moves by sea. 4/ The interruption of shipping between Europe and Asia compelled the use of much longer alternative sea routes for trade between these areas. Bunkering was difficult as rerouting became widespread and bunker ports became congested. Moreover, the maintenance of the flow of commodities over extended sailing distances greatly increased world shipping requirements. As a result, the tight ship charter market created when Egypt nationalized the Suez Canal in mid-1956 became increasingly restrictive and shipping costs rose steeply.

1) Rerouting of Vessels

The closure of the Suez Canal interrupted traffic on the shortest sea route between Europe and the Far East. Vessels engaged in Chinese Communist trade and normally using the Canal had to choose between the Panama Canal or the Cape of Good Hope routes. The use of either meant a significant increase in sailing time and drastic revisions in delivery schedules. For the most part ship owners found it more advantageous to use the Cape route, with few vessels bound for China using the Panama Canal, mainly those whose itineraries included West Coast US ports. As a result, voyage time between Europe and Communist China became a third or

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more longer. For example, the distance between Hamburg and Shanghai is 10,785 nautical miles via the Suez Canal; around Africa the distance is about 14,150 nautical miles. The time and distance differentials between Mediterranean or Baltic Sea ports and China became even greater.

## 2) Tightening Ship Charter Market

The extension of voyage time for vessels carrying a sizeable segment of world trade greatly increased the need for both tankers and cargo vessels, thus aggravating a charter market that had been tightening since the Suez Canal was nationalized on 26 July 1956. Overall tonnage offerings in October, prior to hostilities in Egypt, were barely able to cope with traffic demands. 5/ Hostilities in Egypt made it even more difficult to find vessels, especially for the Far East. Some liners serving the area were rerouted to other trades and many cargo vessels previously available for charter on a one-trip basis were withdrawn. The impact on shipping between Europe and the Far East in general is best illustrated by the freight rate increases of 15 percent in early November and 17.5 percent on 1 February 1957 which were incurred by traffic between these areas. To these additional costs, as well as another rate increase which probably occurred in March, must be added increased insurance premiums. 6/

## 3) Bunkering Difficulties

Most vessels engaged in regular traffic are built to operate on particular trade routes, with consideration for obtaining fresh food, fuel and water at certain ports along the way. On the long-established route to the Far East through the Suez Canal there are many ports equipped to provide these necessities. Ports along the Cape of Good

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Hope route are neither so numerous nor sufficiently large to service efficiently large numbers of vessels diverted from the Suez Canal. Vessels using the route, therefore, had to incur certain disadvantages, in addition to those imposed by increased sailing distances. 7/

The diversion of China-bound vessels around Africa caused delays in bunkering of from two to eight days. Regular lines normally using the facilities on the west coast of Africa and at Capetown were given preference, while owners of other vessels had to arrange for agents and negotiate bunker contracts. Bunker facilities for Bloc vessels engaged in carrying strategic commodities to China were even more limited inasmuch as Western bunkering regulations which normally apply to ports east of Suez were interpreted to cover ports east of Capetown. 8/

The impact of bunkering difficulties on the Bloc is illustrated by the report in December that Czechoslovakia expected to withdraw its vessels from the China trade because of the impossibility of obtaining bunker facilities on the route around Africa. 9/ Moreover, the USSR was compelled to bunker some of its vessels at sea from Soviet tankers enroute to or from the Soviet Far East.

4) Increased Shipping Costs

As a result of the increased voyage time of 30 days per round trip between Europe and the Far East, operating costs for a standard cargo vessel in trade between these areas increased by about US \$87,000 or approximately US \$2,900 a day. 10/ In one direction the increase would have been about US \$43,500. To cover the additional costs of fuel, wages and supplies, ship owners raised freight rates -- the additional rate

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applied to Chinese Communist import traffic routed via the Cape of Good Hope amounted to a minimum of US \$4.20 per ton. 11/ As a result, it is estimated that from November 1956 through April 1957 China incurred an additional expense of approximately US \$3 million\* for imports via the Cape of Good Hope. This is in addition to the general freight rate increase incurred after the Suez Canal was nationalized which amounted to about US \$4 per ton subsequent to July, 1956.

The magnitude of the additional freight charges incurred by Communist China is not great, but with its own merchant fleet confined to coastal trade, increased freight and insurance premiums must all be made in foreign currency. The maintenance of essential imports by sea around Africa, however, would have placed little added strain on China's limited reserves of foreign exchange. 12/

2. Effect of Suez Canal Closure on Communist China's Seaborne Trade

Although some ship owners began diverting their vessels around the Cape of Good Hope after nationalization of the Canal in July 1956, the major impact on shipping was not felt until the Canal closed at the end of October 1956. Merchant ship arrivals in China did not reflect the disruption of shipping until December 1956. Arrivals of Bloc and non-

\* Bloc and non-Bloc vessels from Western Europe and European Bloc ports were assumed to be fully loaded. Their cargo volume was arrived at by multiplying GRT by 1.5 and the result by US \$4.20 to get the representative additional freight charges. Liner cargoes were based on 1955 statistics of average tonnage carried per line per ship, to which the additional freight charge of US \$4.20 was applied.

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Bloc vessels during the first four months of 1957 were appreciably less than in a similar period of 1956, with the greatest decline affecting vessels from the Soviet Far East, Japan and other countries of Asia. Apparently, therefore, China's seaborne trade, both exports and imports, was somewhat less than would normally have been anticipated.

The closure of the Suez Canal, however, seems to have been only one of several factors affecting China's seaborne commerce. Chinese exports to Western Europe and the European Bloc, mainly iron ore, soya beans, and foodstuffs, doubtlessly were affected by the shipping shortage and increased freight rates which prevailed after the closure of the Suez Canal, but they were also reduced by domestic shortages of these commodities. On the other hand, while the disruption of shipping and higher freight rates had some impact on China's seaborne exports to countries south of Suez, the primary depressive influence apparently came from within China. Moreover, with foreign exchange becoming scarce, the reduction of Chinese exports and concomitant lower earnings abroad, may in large part explain the decrease in seaborne imports, at least from the Free World. It also seems likely that imports from some of the European Satellites, particularly Poland, East Germany and Hungary which apparently had not been meeting delivery schedules, were reduced by internal economic difficulties.

a. Merchant Ship Arrivals in Communist China

Arrivals in Communist China since the beginning of 1957 have shown a definite downward trend. (See Table 1,\* Soviet Bloc and non-Bloc Registered Shipping Arriving in Communist China, January-April

\* Table 1 follows on p. 19 .

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1957.) The average monthly gross register tonnage (GRT) of all arrivals in Chinese ports during this period was slightly less than 473,000, or 90,900 below the average GRT of arrivals in a similar period in 1956. The 16 percent decrease in arrivals for the first four months of 1957 compared with the first 4 months of 1956 is especially significant when it is considered that, based on experience since 1952, a sizeable increase would normally have been anticipated. The increase in the average monthly GRT of arrivals during January-April 1956 over a like period in 1955 was 32 percent, a trend which continued through October 1956. If it is assumed that a similar pattern would have prevailed in 1957, the total decrease in arrivals in China during January-April probably amounted to about 35 to 40 percent. That is, arrivals would be expected to average 740,000 GRT a month, when in fact the average was only about 473,000 GRT. Table 2\*, Average Monthly Gross Tonnage of Soviet Bloc and Non-Bloc Registered Ships Arriving in Communist China, January-April 1955-1957, illustrates this decline in shipping engaged in China trade.

The downward trend in arrivals prevailed among Bloc as well as non-Bloc vessels, although the former showed the greatest relative decline. Most notable is the fact that no Bloc tankers arrived in China in the first four months of 1957 compared to three in a like period of 1956, while Soviet tanker arrivals at Vladivostok, some with petroleum for overland shipment to China, were reduced to one, compared to 16 in the first four months of 1956. The average monthly GRT of Bloc-flag vessels arriving in China during January-April 1957 was only 61 percent of the arrivals in a similar period in 1956. The proportion of non-Bloc vessels

\* Table 2 follows on p. 21.

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in China trade increased substantially -- 86 percent in 1956 compared to 81 percent in 1955. 13/ However, this continued a trend evidenced early in 1956 and maintained throughout the year, when the proportion of Bloc vessels involved in China trade began to decline. In part, this is believed to reflect an increase in liner services between Europe and the Far East. 14/

While arrivals in Communist China in early 1957 were considerably less than could normally be expected from each major area trading with China, it is noteworthy that the greatest decrease in average monthly GRT was evidenced in arrivals from the Soviet Far East, Japan and other Asian countries which actually declined considerably over the previous year. On the other hand, arrivals in China during the first four months of 1957 from areas north of the Suez Canal -- Western Europe and the European Bloc -- which were most seriously inconvenienced by the necessity of re-routing vessels around the Cape, showed a slight increase over a similar period in 1956. Table 3\*, Origin of Soviet Bloc and Non-Bloc Registered Shipping Arriving in Communist China, January-April 1956 and 1957, illustrates this trend.

b Reasons for Decrease in Merchant Ship Arrivals in Communist China

The decline of China's seaborne trade reflected in decreased arrivals, apparently cannot be explained as the result of the closure of the Suez Canal. It is quite certain that the world-wide shipping

\* Table 2 follows on p. 22 .

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shortage and consequent increase in freight rates have been important factors influencing the overall downward trend in merchant ship arrivals in Communist China. There have been numerous reports indicating that cargoes to and from China have been delayed by the dislocation of shipping since the end of November 1956. For example, shipments of iron ore to East Germany 15/ and coal deliveries to Pakistan 16/ have lagged because of the scarcity of shipping. Moreover, the unavailability of shipping has prevented China from obtaining desired imports such as fertilizer from West European trade partners. 17/

Other factors, however, probably have had an equally depressive influence on China's seaborne trade. Otherwise, it is difficult to understand the significant reduction in arrivals from areas east of the Suez Canal, most notably Japan. The Japanese, as well as other countries of Asia and the Far East, must certainly have gained a price advantage for many commodities in the Chinese market over European competitors as a result of the general freight rate increases affecting the latter. An increase in Japanese exports to China of such commodities as steel, machinery, vehicles, and fertilizer, all normally supplied by European countries, would therefore have been anticipated, and actually occurred for most of these commodities during the last two months of 1956. 18/ During the first quarter of 1957, however, Japanese exports to China in terms of value dropped to almost half their value in the last quarter of 1956 (from US \$27.9 million to US \$14.0 million). 19/

It is believed, therefore, that the general status of planning in Communist China and CHINCOM discussions in Paris in May and

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June 1957 have significantly affected China's seaborne imports. Defects in industrial planning in 1956, in large part involving overinvestment in some sectors of the economy, led to the need for "suitable retrenchment" in 1957. 20/ During 1957, it was announced, China's construction program will be considerably smaller than in 1956 -- investment will be limited to about one-third of total government revenues compared with some 45 percent in 1956. 21/ Internal and external economy drives have also been undertaken which have or will cause cancellation of some contracts for equipment abroad. 22/ The decline in China's seaborne imports during the early part of 1957, as evidenced by merchant ship arrivals, probably reflects the general curtailment of investment in the country.

On the other hand, China may have deferred some import requirements until CHINCOM negotiations were concluded. With pressure generally mounting prior to the Paris conference for relaxation of controls on China trade, the Chinese may have anticipated the increased availability of certain commodities previously embargoed. Rather than commit present limited foreign exchange funds, China may have expected to be in the better bargaining position that followed the CHINCOM conference.

Furthermore, faulty planning in 1956 led to serious shortages of some domestically produced commodities. Iron ore and coal, each a major export item, were reported to be in short supply internally in early 1957 and therefore probably not available for export in the same volume as 1956. 23/ Severe floods in the autumn of 1956, which were much more disastrous than originally anticipated, also affected the output of some basic products. Natural calamities in certain areas were even more serious than

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in 1954, when floods caused such great damage. 24/ Apparently as a result, it was announced that exports of certain major commodities in 1957 would be reduced greatly compared with 1956. Exports of edible oils and pork, it was stated, would be 120,000 and 110,000 tons less, respectively, in 1957, 25/ with prospects that grain and cotton cloth exports would also decline. 26/ Virtually all of China's trade partners would be affected by shortages of such basic export commodities as foodstuffs, iron ores and coal.

China's seaborne exports in early 1957 were probably also adversely affected by popular dissatisfaction in the European Satellites. Events in Hungary and Poland in 1956 may well have led China to reappraise its economic plans. The basic imbalance between industrial development and consumer welfare in these Satellites may have prompted China to attempt to raise the people's standard of living to forestall any disturbances within the country. To do so, would probably involve diverting commodities normally available for export. The singular lack of offers of all types of Chinese produce, especially cereals in North China, at the end of 1956 and early 1957 27/ at a time when these commodities are usually available, may indicate their diversion to domestic consumption, as well as reflect adverse weather conditions during 1956.

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### 3. Interior Transport Facilities

#### a. Diversion from Ocean Shipping to Rail Transport

No specific data are available upon which a quantitative estimate can be made of the diversion of China's foreign trade from ocean routes to overland rail routes as a consequence of the closing of the Suez Canal. Nevertheless, a reasonable estimate can be made of what did actually take place.

Owing to suspension of sea movements of petroleum upon the closing of the Canal 28/ and the imperative need of maintaining a constant supply, overland movement of petroleum and its products via the Trans-Siberian Railroad would have had to increase by approximately 60,000 tons per month, (equivalent to a daily movement of 2,000 tons or approximately  $1\frac{1}{2}$  trainloads) in order to maintain the prevailing rate of flow to the Far East.\* No Black Sea oil reached China either directly by sea or indirectly by ocean voyage around Africa to Vladivostok and by rail from there to China via the Grodekovo border point during the time that the Canal was closed. Likewise, sea movement of oil to Vladivostok and other Soviet Far Eastern points for the use of the USSR was cut off.

Certain other goods on order by China from the Satellites undoubtedly were shifted from sea to overland rail movement as soon as it became clear that the Canal would be blocked for a matter of months. These goods probably consisted mainly of items, the non-receipt of which would have stopped construction in China or otherwise delayed

\* See Appendix B for quantitative estimate of volume of petroleum diverted from sea to overland transport. Appendix B follows on p. 24.

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planned Chinese industrial expansion. Included in this category were heavy machine tools and industrial machinery, power plants, coal and oil extracting machinery, tractors, earth moving equipment and spare parts. 29/ Doubtless there were numerous others. Products which customarily moved overland and merely continued to do so, such as transportation equipment and military goods, cannot be treated as diverted tonnage.

Estimated diversion up to the end of 1956 of dry cargoes from the Satellites to China was 15,000 tons or less.\* Subsequently, with sea arrivals resuming at a higher rate than had existed prior to the closing, 30/ it is believed that diverted eastbound tonnage of dry cargo would have consisted only of badly needed items of which there was insufficient supply to afford the time for the extended sea voyage around Africa. Overland shipments of such items should have amounted to less than 5,000 tons per month.

Westbound freight from China and North Korea for the USSR and the Satellites, the absence of which might have interfered with Soviet or Satellite key industrial plans or developments may have been shipped overland in limited amounts. Possibly in this category would have been rubber, jute, non-ferrous metals and concentrates, oil seeds, soy beans, and certain chemicals. Although the Satellites are known to have been short of iron ore during this period, overland movement of any great amount would be ruled out by the cost.

A rough estimate of the maximum tonnage which under the most urgent circumstances might have been diverted to the railroad for

\* See Appendix C for quantitative estimate of volume of other goods diverted from sea to overland transport. Appendix C follows on p.26.

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westbound movement during the first two months of the Suez crisis would be in the neighborhood of 30,000 to 35,000 tons.\* (i.e., the amount which at the concurrent rate of shipment might have been expected to move by sea during the inactive period of December\*\* exclusive of iron ore.) It would, however, be reasonable to assume that overland freight costs and the necessity for providing Soviet exchange precluded an amount this large being shifted to the rails for the account of the Satellites. The Chinese export shipping situation for the first quarter of 1957 is not as yet clear, but a rough estimate is that after January, railroad diversions were held down to 5,000 tons per month or less until the Canal was reopened, when, after a short lag, they probably ceased.

b. Effect on Internal Sino-Soviet Bloc Transportation

The effect on the hauling capacity of the Trans-Siberian and Chinese railroads of the complete diversion of the ocean petroleum traffic must have been a matter of some concern, since an additional train and one half per day would have been involved in the USSR and one train additional per day for China. Aside from the cost of the movement, it is thus suprising that no Bloc tankers were sent to the Far East around the Cape of Good Hope. The tank car park of the USSR may well have been placed under an extra strain because of the relatively

\* This does not include possible diversion of sea shipments between Soviet ports which might have added 10,000 to 15,000 tons more.

\*\* The "Gap" in departures following the Suez closing was most noticeable between 2-26 December 1956.

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long car turnaround time required, and it is possible that POL deliveries of lower priority within the USSR may have had to be deferred. On the other hand, the POL production of the new liquefaction plant at Kitoy was available, and one of the new pipelines from Tuymazy to Omsk was in operation, so that the strain was less than it would have been in previous years.

The impact on the railroads of having to move diverted dry cargo was of less consequence than the increased POL movement, since the volume was lower and the need came after the season of peak demand on closed cars had passed. In 1956, there was a choice of rail routes between the European USSR and China except for the stretch in Siberia between Novosibirsk and Ulan Ude. The addition of a few cars per day for traffic to and from China over these routes and even over the very active stretches of the Trans-Siberian would not, therefore, have presented a major transportation problem.

c. Increased Costs

One principal factor in holding down the demand for overland transportation on the part of China and the European Satellites was the great excess of land freight rates over ocean shipping rates. On iron ore, for instance, (which is believed not to have moved by rail except possibly in minor experimental shipments to test service and comparative net shipping costs to final point of delivery,) the Uniform Transit Tariff (UTT) (applicable to transit traffic in the Bloc) provides for a rate of 2.5 kopeks per ton kilometer, 31/ so that a movement of ore from Otpor to the Polish border would cost about 200 rubles (\$50.00) per ton in Soviet exchange. This is considerably more than the ocean

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rate of approximately \$30.00 32/ per ton of Hainan ore around the Cape of Good Hope. (The freight via Suez for iron ore had been running at about \$21.00 33/ per ton prior to the closing.) The value of Hainan ore FOB Yulin is estimated at between \$8.00 and \$13.00 per ton.

UTT rates on manufactured and processed goods in transit from the Polish-Soviet border to China would vary from \$116.00 per ton for sugar, \$116.00 per ton for oil well drilling equipment and machine tools (where values might run from \$500 to \$3,000 per ton), and \$96.00 per ton for electrical equipment to \$58.00 per ton for steel and \$39.00 per ton for mineral fertilizers. 34/ These rates compare with ship charter rates around the Cape of Good Hope of \$30.00 per ton and of pre-November charter rates of \$22.00 per ton from Gdynia to South China. On oil products going overland from the USSR, the USSR probably absorbed most of the freight costs from the oil fields to the Chinese border points, but the combined transport costs to the two countries were about \$85.00 per ton to average area of destination, 35/\* as against \$40.00 by sea via Vladivostok and Grodekovo and \$21.00 by sea direct.

On commodities going from China to the USSR, the increased freight costs were absorbed internally by the two countries and foreign exchange was not involved. On goods moving from China to the Satellites : other than iron ore, rates of \$154. per ton for rubber, \$77. for bulk chemicals, \$67. for oil seeds and soy beans, and \$48. for non-ferrous concentrates from the Chinese border of the USSR to the Polish border, serve to illustrate the relative weight of the overland freight differential as against sea charter rates through the Canal of from \$21 to \$26 per ton

\* Chinese average rail rate assumed as 5 kopeks per ton kilometer.

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and around Africa of approximately \$30 per ton.

It may thus be concluded that China and the Satellite countries probably accepted delayed ocean shipment, even around Africa, in preference to trying to provide such heavy sums in Soviet exchange for overland shipment, except under the most urgent conditions.

B. Prospects for 1957

1. Trade (S/TF)

2. Transport

The opening of the Suez Canal removed a serious impediment to shipping engaged in Communist China's foreign trade, but it may take some time before services can be reinstated on their former basis. Nevertheless, it is believed that China will have no difficulty in obtaining sufficient shipping space to fulfill trade requirements for the remainder of 1957, even if these increase above the depressed level of the early part of the year. Based on shipping activity during first four months of 1957 and China's internal economic retrenchment, however, it is estimated that China's total seaborne trade in 1957 will not greatly surpass that of 1956.

By the same token, it is unlikely that diversions of traffic from the ocean to the rails will continue after the resumption of Canal traffic is fully effective. Petroleum shipments may be expected to resume their pre-Suez pattern, and overland movement of other goods in short supply will doubtless return to the sea. The Paris talks, if the results are as presently indicated, may result in an even greater shift of overland movement of China-European Bloc traffic to the sea, with

consequent lowering of outlays for transportation within the Bloc. A decline in intra-Bloc trade would have the same effect. The principal foreseeable factors which could have the opposite result would be a renewed crisis in the Middle East, Far East or Southeast Asia or a drastic downward revision of the Uniform Transit Tariff.