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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

China: Prospects for Foreign Trade in 1972

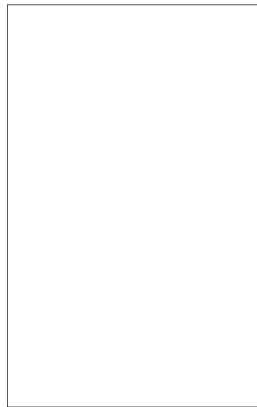
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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
July 1972

INTELLIGENCE MEMORANDUM

CHINA: PROSPECTS FOR FOREIGN TRADE IN 1972

Summary and Conclusions

1. The foreign trade of the People's Republic of China (PRC) should increase by more than 10% in 1972 - to at least US \$5.2 billion compared with \$4.6 billion in 1971. As much as one-half of the expected increase will be attributable to the higher dollar values that resulted from the revaluations of major world currencies in December 1971. Nonetheless, the expansion in the real volume of trade will be substantial and will be based on three major factors:

-- The domestic economy is booming in this the second year of the Fourth Five-Year Plan (1971-75).

- Peking's more moderate political stance, its expanding foreign aid program, and its closer attention to the quality of export goods have helped broaden its international markets.

-- Chinese imports can now move ahead as rapidly as exports because the temporary trade imbalance of 1970 was redressed by restraints on imports in 1971.

2. Most of the expansion in 1972 will take place with China's principal trading partners - particularly Japan, Hong Kong, and Canada. The remainder of the increase will be largely the result of an upsurge of trade with some less developed countries (LDCs), especially in Latin America, and the USSR. Trade with the United States will rise sharply on a percentage basis, but will remain small in absolute terms - probably below \$50 million. Trade with Western Europe is expected to show little change. Political considerations continue to affect China's choices among

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trade partners - for example, grain purchases have been entirely shifted from Australia to Canada following the establishment of diplomatic relations between Canada and China.

3. Imports of wheat - which were only 3.1 million metric tons in 1971 - will bounce back nearer the annual level of 4 million to 5 million tons that has prevailed ever since China's food disaster years of 1959-61. Imports of chemical fertilizer will remain the same or decline as Peking continues to press the expansion of domestic production. Imports of metal products will remain high and may increase. Prospects are good for substantial increases in imports of machinery and equipment, especially transportation equipment. The commodity composition of exports will follow the traditional pattern of agricultural and mineral raw materials, textiles, light manufactures, and rice and processed foodstuffs.

4. The sizable percentage increases in foreign trade in 1970-72 are attributable in large measure to the PRC's recovery from the Cultural Revolution (1966-69) and to other one-time factors. Over the longer term, China's trade will continue to be small in relation to gross national product (GNP) and slow-growing in relation to domestic economic activity because of Peking's (a) policy of economic self-reliance and (b) aversion to long-term foreign indebtedness.

Discussion

Background: 1971 Trade in Perspective

5. China's foreign trade sector continues to mirror the general economic recovery that followed the Cultural Revolution (1966-69) and the resurgence of capital investment that has accompanied the Fourth Five-Year Plan (1971-75).* In both 1970 and 1971 the volume of foreign trade increased more than 9% annually. Four-fifths of China's trade continues to be with non-Communist countries. And China still remains free of long-term foreign indebtedness. Deficits with the developed countries have been balanced by a large surplus in trade with Hong Kong and a smaller surplus in trade with the less developed countries. (Table 1 shows trade with the Communist and non-Communist worlds for selected years, 1959-71, and Table 2 shows trade, by area and country, 1970-71. Tables 1-4 are in Appendix A.)

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6. Imports of foodstuffs have declined in recent years and have been replaced largely by imports of manufactures, mostly iron and steel products and nonferrous metals. Machinery and equipment imports have climbed back to the levels of 1966, with imports of transport equipment being much higher and equipment for whole plants much lower than in 1966. Exports consist largely of agricultural products, textiles, and light manufactures. (Table 3 shows the commodity composition of China's trade in 1966, 1970, and 1971.)

7. Preliminary data indicate that China's trade rose to \$4.6 billion in 1971, exceeding the long-standing peak level of 1959. To correct a sizable deficit with the non-Communist countries in 1970, China reduced imports from these countries by \$35 million while it pushed exports up \$235 million. Peking's success is reflected in the following tabulation:

	<u>Million US \$</u>	
	<u>Balance of Trade with Non-Communist Countries</u>	
	<u>1970</u>	<u>1971</u>
Developed countries	-880	-630
Less developed countries	260	205
Hong Kong and Macao	365	440
Total	<u>-255</u>	<u>+15</u>

8. China's trade with the non-Communist countries increased by only 6% in 1971. Trade with the developed non-Communist countries declined slightly; exports went up by \$120 million and imports declined by \$130 million. The \$135 million increase in trade with the less developed countries was featured by a sharp rise in imports as China turned to these countries for greater amounts of raw materials and primary metals. Trade with Hong Kong grew by 20%. Net earnings in Hong Kong of about \$700 million from direct trade, entrepot trade, and overseas remittances were more than enough to finance China's deficit with the developed countries.

9. Trade with the Communist countries in 1971 increased by 25%, the first substantial rise since 1959. Trade with the USSR more than tripled - rising to \$155 million, compared with \$45 million in 1970. Trade with Romania, North Korea, and North Vietnam also rose sharply.

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Major Developments Affecting 1972 Trade

10. China's total trade in 1972 probably will reach at least \$5.2 billion, with perhaps one-half of the increase in dollar value accounted for by the recent revaluation of world currencies against the dollar. Among the factors that indicate that China's trade will continue to expand in 1972 and beyond are:

- sharp rises in the value of transactions at the Canton Trade Fair, especially at the Spring Fair of 1972;
- increases in the number of exchanges of trade delegations and of trade exhibits, which suggest possible large Chinese purchases of machinery and equipment;
- prompt signing of 1972 trade agreements with long-standing trading partners; and
- agreement on a number of major import contracts, featured by a new grain contract with Canada and contracts for nonferrous metals and transportation equipment.

The Canton Fairs

11. The semi-annual trade fairs at Canton ordinarily account for nearly one-half of the PRC's trade with non-Communist countries. The bulk of China's exports are arranged at these fairs; some import contracts are also concluded. Because of Peking's emphasis on balancing trade, the volume of China's imports is closely related to the amount of export sales. Thus, the volume of sales arranged at the Canton Fairs is a good indicator of China's trade prospects for the six to 12 months following the fairs.

12. Large increases in Chinese sales at the last two Canton Fairs indicate that China's exports to non-Communist countries will again rise sharply in 1972. Total transactions at the 1971 Fall Fair rose to nearly \$1 billion, or slightly above the total at the 1970 Fall Fair. Chinese export sales accounted for \$600 million and purchases for \$400 million. Transactions at the Spring Fair, where activity is usually lighter than at the Fall Fair, were exceptionally high in 1972 - \$100 million to \$200 million above the level at the 1971 Fall Fair. Chinese sales were up 20% to 30% to an estimated \$700 million to \$800 million. Purchases may have been less than at the Fall Fair - between \$300 million and \$400 million.

Trade Delegations and Exhibits

13. Major import contracts with the non-Communist countries have traditionally been arranged with foreign businessmen outside the confines

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of the Canton Fairs. Trade delegations and temporary industrial exhibits in the PRC enable the Chinese to ascertain the availability of industrial goods. In 1971-72, four major trade delegations headed by the Minister or one of the Vice Ministers of Foreign Trade have made extensive tours of (a) the Scandinavian countries; (b) Algeria, France, and Italy; (c) Chile and Peru; and (d) Afghanistan and Iran. Tangible results of these missions include large increases in trade with Peru, Chile, and the Scandinavian countries, especially Sweden.

14. Chinese delegations visiting Western Europe and Japan have been interested in advanced industrial technology in chemicals, machine building, and electronics, a sign that the Chinese may purchase more complete plants in the near future. Delegations from the developed countries that visit China normally discuss the sale of particular products, such as trucks, ships, and aircraft. A parallel increase in the number of delegations exchanged with less developed countries reflects China's efforts to influence the Third World - several new trade and aid agreements have been concluded. A number of exchanges also have been taking place with Communist countries, notably Romania and Yugoslavia. (For a list of trade and economic delegations to and from the PRC, see Table 4.)

15. A number of countries - including Denmark, Japan, Sweden, Canada, Yugoslavia, and Romania - have conducted trade exhibits in the PRC in 1971-72. These exhibits provide the Chinese with important information on technical advances in various fields and permit Chinese technical people to gather information on which to base purchase decisions. Moreover, the exhibitors usually sell the displayed items at a reduced rate giving China an opportunity to buy inexpensive prototypes.

Trade Agreements

16. Trade agreements provide the basis for the PRC's trade with the Communist countries, with some of the less developed countries, and in part with Japan. In 1972, many of these agreements involve substantial expansion of trade. In addition to the usual annual agreements, China has long-term agreements with Algeria, Cuba, Nigeria, North Korea, and Romania. Several countries have begun to carry on significant trade with China for the first time in recent history. Among these are Guyana, the Philippines, and Brazil. Further details on these trade agreements are presented in the country discussions below.

Major Import Contracts

17. Major import contracts and on-going negotiations provide evidence of the import levels in 1972 of several important commodities. China's imports of grain will be up in 1972; China already has purchased about \$250 million worth of Canadian grain for delivery in 1972, compared with

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total purchases of \$200 million worth in 1971. China has been negotiating for Japanese steel. Despite some difficulties over prices, total steel imports are expected to remain high in 1972.

18. Nonferrous metals imports also will stay high. China's domestic copper industry is falling further behind its needs, and contracts have been signed for 1972 delivery of well over 100,000 tons of copper from Chile, Peru, and Zambia, an amount equivalent to China's worldwide purchases in 1971. China has contracted to buy 15,000 tons of lead and a similar amount of zinc from Peru; imports of these metals also may go up. On the other hand, China's aluminum industry is catching up to needs, and these imports could start to decline in 1972.

19. Chemical fertilizer contracts negotiated in 1971 for fiscal year 1972 with Japan and the West European consortium NITREX reportedly were down \$30 million from the fiscal year 1971 contracts. However, China is increasing fertilizer imports from other countries, and new contracts with Japan and NITREX will undoubtedly be signed for fiscal year 1973 deliveries. The prognosis for imports of chemical fertilizer for the whole of 1972 is somewhat below that for 1971.

20. In the last year or so, China has contracted to purchase a wide variety of machinery and equipment, much of which will be delivered in 1972. Transportation equipment heads the list with major purchases of transport aircraft from the USSR and the United Kingdom; trucks from Morocco, France, and Romania; ships from Norway, Poland, and Yugoslavia; and locomotives from France and West Germany. Negotiations for additional transportation equipment and for additional complete plants are under way. Deliveries under any new contracts normally will take place after 1972.

Currency Revaluations and Dollar Estimates of China's Trade

21. The estimates of the dollar value of China's trade in 1972 will be affected considerably by the revaluation of currencies in December 1971. For example, China's trade in 1970 measured in devalued dollars would be 10% higher than when measured in old dollars. Imports would have been valued 11% higher and exports 9% higher. The effect of the currency revaluation on the dollar estimates of China's trade will not be uniform with respect to all trading partners. The effect will be greatest with Japan and West Germany, countries with currencies having the largest revaluation in relation to the US dollar. In the trade data for 1972, the importation of \$100 million worth of Japanese goods into China will have less real significance for the economy than in previous years. On the other hand, there will be no effect on dollar estimates of trade with those countries - especially Latin American and Middle Eastern countries - that kept their currencies at par with the US dollar.

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22. The currency changes also have considerable effect on the terms of trade between various countries. For example, Japanese goods have become more expensive relative to those of Western Europe. China could turn to other countries for some of the products formerly purchased from Japan or could exert pressure on Japan to lower prices. Moreover, Chinese goods have become cheaper for Japan, which may help China to improve its balance of trade with Japan in 1972. (For a more detailed discussion of the effect of currency revaluations on Chinese trade, see Appendix B.)

Trade with Non-Communist Areas

23. Trade with the non-Communist countries in 1972 probably will increase in real terms by more than the 6% increase of 1971. China's trade with the non-Communist countries was brought back into balance in 1971, and the foreign exchange position of the PRC is much better than a year ago. Therefore, China should be able to expand imports in concert with exports in 1972.

The United States: A New Partner

24. Contacts between American businessmen and the Chinese began shortly after trade barriers were removed in 1971. Direct trade between China and the United States is occurring for the first time in 1972. The highlight of trade contacts thus far was the invitation of some 40 Americans to the Spring Canton Fair. These Americans purchased \$5 million to \$10 million worth of Chinese products, including metals, fireworks, foodstuffs, and other consumer items for delivery in 1972. In addition, goods still are being imported through third parties - \$9.2 million worth in the first quarter of 1972.

25. On the export side, the only major deal concluded thus far is the sale of a communications satellite station to China. Boeing, Lockheed, and McDonnell Douglas Aircraft Companies have been discussing the sale of aircraft to China, and the prospects appear good that at least some sales will be made. The Chinese have also expressed interest in a number of other US products - telecommunications equipment, machine tools, transportation and earth moving equipment, aircraft navigation aids, agricultural equipment and chemicals, and medical instruments. However, negotiations for major Chinese purchases are apt to be protracted and delivery of large amounts of these items is not likely to occur in 1972. All told, two-way trade may reach \$40 million to \$50 million in 1972.

26. US contacts with the Chinese probably will be stepped up in the latter half of 1972. [redacted] business and banking delegations may be invited to China this summer, and the Chinese have said that a larger American delegation will be invited to the Fall Canton Fair. Although the effect of the United States' entrance into the Chinese trade picture

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cannot yet be measured with precision, most indications point to a gradual increase in trade contacts for the first few years. The conclusion of only one or two major contracts -- for example, a large sale of aircraft -- could cause trade turnover to jump sharply in the year of delivery. Chinese sales of consumer items almost certainly will increase as American businessmen attempt to meet the demand for Chinese goods in the affluent US market.

Japan

27. Sino-Japanese trade, which amounted to \$926 million in 1971, will have no trouble moving across the \$1 billion mark in 1972. Japanese statistics indicate that trade in the first quarter of 1972 went up by 33% over the first quarter of 1971. More than 2,000 Japanese businessmen attended both the Fall 1971 and the Spring 1972 Canton Fairs. Contracts were signed for the exchange of about \$400 million worth of goods at the two fairs, up by about \$75 million over the previous two fairs. Also, under the annual Memorandum Trade Agreement signed in December 1971, the earliest ever, trade will increase from \$70 million in 1971 to \$90 million in 1972.

28. Again, as in 1971, Chinese exports to Japan are growing at a greater rate than imports. Chinese imports of steel continued to rise in the first quarter of 1972, but temporary suspension of the steel negotiations in April, because of disagreement over prices as well as disappointing sales at the Spring Canton Fair, might adversely affect steel deliveries for the year. Fertilizer imports probably will increase only slightly on the basis of larger deliveries under the Memorandum Trade Agreement. To judge from the 1971-72 contracts, direct sales by Japanese fertilizer companies will remain about the same. Imports of Japanese machinery probably will remain at a moderate level because China, as in 1971, is purchasing only a small number of Japanese trucks and other vehicles.

29. Japan has been asking for price increases for both steel and fertilizer to recover losses resulting from the differences in yen and sterling revaluations in 1971 (China pays for goods imported from Japan in pounds sterling). The Chinese should successfully resist these demands, especially in the case of fertilizer, because other sources of supply are available.

30. Chinese exports to Japan in 1972 will expand but not by nearly so much as the 25% increase of 1971. The Japanese market may be nearing its saturation point for silk and silk products, which accounted for nearly one-half of the increase in 1971. Japanese demand for Chinese foodstuffs -- one-half of China's exports to Japan -- is not apt to rise rapidly. Soya bean exports may decline in 1972. Finally, China's growing domestic requirements preclude the export of large quantities of such fuels and industrial raw materials as coal, petroleum, or nonferrous metals, for which the Japanese economy has a voracious appetite.

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Western Europe

31. After a 4% drop in 1971, trade with Western Europe is expected to increase moderately in 1972. Improved political and economic ties with the PRC are a major factor in the expected expansion. Moreover, China may be able to afford a larger deficit in 1972 in its trade with Western Europe. Factors hindering a large increase in trade in 1972 are Western Europe's difficulty in absorbing larger quantities of Chinese products and the reduction in fertilizer sales in fiscal year 1972. Sales of fertilizer to China by NITREX were reduced by more than one-half in the contract signed in August 1971. Unless the contract for fiscal year 1973 calls for large shipments in the remainder of 1972 or unless the Chinese turn to independent producers in Western Europe, total fertilizer imports will be reduced substantially.

32. France could press West Germany for first place among China's West European trading partners in 1972 on the basis of continued large exports of trucks and the delivery of diesel locomotives from a \$30 million contract concluded in 1971. On the other hand, West Germany continues to be a major source of steel products and machine tools, commodities that also are in great demand in the PRC. In addition, West Germany is delivering some diesel locomotives on a 1970 contract. The sharp drop in China's imports in 1971 from the United Kingdom may be reversed in 1972 as machinery, aircraft, and airport equipment are delivered in greater quantity. Despite excellent political relations, Italy continues to have difficulty in increasing its trade with China. Some expansion in trade may result from (a) the recently concluded \$10 million barter deal exchanging Fiat trucks for Chinese commodities, (b) visits to Italy by several Chinese trade delegations, and (c) visible Chinese interest in Italian machinery and chemicals.

33. Of the lesser trading partners of Western Europe, China has shown particular interest in the Scandinavian countries as evidenced by the dispatch of the high-level trade delegation to these countries in 1971. Sweden had considerable success in increasing exports in 1971, and the recent Swedish exposition in Peking should help to stimulate sales still further. Denmark also may have good prospects for trade increases as a result of its recent exposition in Peking. The 1972 trade agreement between Finland and China calls for a 10% increase in trade. China has been negotiating with Norway for purchases of ships and has agreed to buy greater amounts of woodpulp. As for other European countries, the Netherlands' hopes of doubling exports to the PRC in 1972 seem overly optimistic. Belgium's recognition of China in late 1971 could lead to increased trade. Austria and Switzerland will remain important sources of specialized steel products and machine tools, respectively.

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34. Canada will make significant gains in trade again in 1972, probably moving up to third place among China's trading partners. Trade with Canada is one-sided; China's trade deficit in 1971 was \$187 million. More than 90% of Canada's exports have consisted of wheat. In December 1971 a contract was signed for \$195 million to \$200 million worth of wheat to be delivered in 1972, about the same as total sales in 1971. An additional contract for \$100 million worth of wheat was signed in June 1972, one-half to be delivered in 1972 and the remainder in the first quarter of 1973. In addition to wheat, China has been buying wood pulp, aluminum, and nickel from Canada. China has also shown an interest in Canadian chemicals, tobacco, and machinery. Canadian companies have high hopes of increasing exports further - some 200 companies plan to exhibit their wares at the exhibition in Peking in August and September. The only drawback to continued rapid expansion of trade is the small volume of Canada's imports of Chinese goods. Peking will not lightly accept greater trade deficits with Canada.

35. China penalized Australia for its diplomatic fence-sitting by turning to Canada for all its wheat imports in 1971. As with Canada, Australia has furnished only a small market for Chinese goods. China can use Australia's metals and purchased considerable quantities of pig iron, aluminum, and steel products in 1971. Australia has offered copper, but China is more likely to purchase its copper from friends in Latin America and Africa. In 1972, Australia is selling sugar to the PRC and will continue to sell metals products. Trade turnover probably will be about the same as in 1971.

Hong Kong

36. China's trade with Hong Kong will prosper again in 1972. Hong Kong probably will increase its purchases of Chinese products by 10% to 15%, compared with a rousing 21% in 1971. Foreign exchange earnings from trade and financial activities in Hong Kong may reach \$800 million in 1972: perhaps \$500 million from provisioning Hong Kong, \$150 million from goods sent to Hong Kong for re-export, and \$150 million from remittances of overseas Chinese and Peking-owned enterprises.

The Less Developed Countries

37. China's efforts to assume the leadership of the Third World are reflected in the rapid rise in trade with the less developed countries. The growth of Chinese exports to the LDCs often is tied to China's foreign aid program in Third World countries. The PRC has improved its image in these countries by adopting a less doctrinaire foreign policy and by

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providing hard-working technicians who live as austere as the local population. Peking has announced its willingness to adhere to most of the 13 principles governing trade relations and trade policies adopted at the third session of UNCTAD (United Nations Conference of Trade and Development) held at Santiago in April and May 1972. Trade with the LDCs should increase by at least 10% in 1972. China's trade surplus -- \$205 million in 1971 -- will decline in 1972 because increases in imports of metals and other industrial raw materials from the LDCs will exceed the expansion of China's exports.

Latin America

38. In December 1971 a four-year agreement was reached with Chile to purchase \$65 million to \$70 million worth of Chilean copper annually. China has also agreed to purchase about \$3 million worth of nitrates in 1972. China's imports from Chile, which were less than \$10 million in 1971, should reach at least \$70 million in 1972.

39. With Peru, China has contracted to buy copper, lead, and zinc worth more than \$100 million during 1972-74. Fish oil and fish meal ordered by China for 1972 delivery will cost an additional \$30 million. These purchases should raise China's imports from Peru to at least \$60 million, more than double the 1971 level.

40. China and Guyana signed a long-term trade agreement in late 1971 whereby China will purchase aluminum, timber, and sugar possibly valued at \$5 million to \$7.5 million annually. To offset declines in imports of Cuban sugar, China recently purchased \$23 million worth of sugar from Brazil, and further contracts may be in the offing. China has also purchased about \$4 million worth of Mexican cotton to be delivered in 1972 and may purchase other Mexican commodities shortly. China also recently inquired about the possible purchase of 100,000 tons of corn from Argentina to be delivered to Chile. China's aid agreements with several of the Latin American countries provide for delivery of Chinese commodities such as foodstuffs, consumer goods, and mining equipment. Aside from these deliveries, China's exports to Latin America will remain at a very low level.

Africa

41. Sino-African trade increased sharply in 1970 and 1971 and should rise again in 1972, though less ebulliently. Tanzania, Sudan, Nigeria, Morocco, and Algeria head the list of the PRC's African trading partners. Trade with these countries increased by more than 50% in 1971 and probably will level off in 1972. Trade with Tanzania is linked to purchases from China to pay for local costs of the Tan-Zam Railroad. For a time,

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the Tanzanians had difficulty selling Chinese goods locally as provided under the aid agreement. Now that this problem has eased and now that the project has reached its full level of activity, trade with Tanzania probably will level off. Trade with Sudan spurted in 1971 as a result of improved political relations and also may level off in 1972. Nigerian trade has been stabilized under a three-year agreement. A large part of the gains in 1972 thus will come from increases in trade with other countries patronized by the PRC, such as Ethiopia, Somalia, Guinea, Sierra Leone, Burundi, and Tunisia.

Middle East and South Asia

42. China's trade with Egypt, Iran, and Iraq in the Middle East appears to be on the upswing. The trade agreement with Egypt for 1972 calls for a 13% increase in trade over that in the agreement of 1971. Delegations from Iran and Iraq visited China in 1971 and a high-level Chinese trade delegation visited Iran in 1972. The Chinese probably are interested in chrome and fertilizer from Iran and sulphur and fertilizer from Iraq. China is buying increased quantities of fertilizer from Kuwait and has contracted to purchase 100,000 tons of sulphur from Syria.

43. In South Asia, trade with Pakistan may increase slightly in 1972. China is scheduled to ship \$20 million to \$30 million worth of raw materials under aid agreements to help with the rehabilitation of Pakistan in the wake of its war with India. On the other hand, trade may be adversely affected by the separation of Bangladesh, the source of almost all of the jute that has been shipped to China in past years. China's trade with Sri Lanka (Ceylon) will decline again in 1972. Sri Lanka is cutting back on imports of Chinese products that fall outside of the annual rubber-rice barter deal. The barter deal is at about the same level as in 1971 - 200,000 tons of Chinese rice for 39,000 tons of Sri Lankan rubber.

Southeast Asia

44. Notwithstanding optimistic forecasts by Malaysian officials, China's trade with Southeast Asia probably will not increase greatly in 1972. The Malaysians again are projecting large sales of rubber to China, yet in the past few years sales have remained steady and in all likelihood will stay about the same in 1972. The attempts of the Malaysian National Corporation (Pernas) to channel all transactions with China through its offices have met with some success. The Chinese apparently consider the control by Pernas to be detrimental to trade between the two countries, and a large part of Malaysian trade still will be carried out by private overseas Chinese concerns. As a result, most of Malaysia's imports will continue to arrive via Singapore. Trade with Singapore itself may show small increases. Trade with Burma and the Philippines should rise substantially; neither is a major trading partner of China.

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Trade with Communist Countries

45. The resurgence of trade with the Communist countries will continue in 1972. Sino-Soviet trade negotiations for 1972 have just been completed. Chances are that trade will rise again, perhaps reaching \$200 million to \$250 million, compared with \$155 million in 1971 and \$45 million in 1970. Transport aircraft continue to loom large in Soviet exports as well as industrial machinery and metal products. China has been selling its traditional products to the USSR - textiles, foodstuffs, and crude materials.

46. Trade with Eastern Europe should increase moderately in 1972. China is receiving important transportation and industrial equipment from Eastern Europe in return for light manufactures and foodstuffs. Sino-Romanian trade should retain its upward momentum. A sizable portion of China's exports to Romania consists of commodities being delivered under aid agreements concluded in 1970-71. The 1972 Sino-Hungarian agreement reportedly projects at least a 10% increase in trade. Agreements have also been signed with Poland, East Germany, Czechoslovakia, and Bulgaria. Trade with these countries probably will maintain the 1971 pace.

47. As to the other Communist countries, Chinese trade should increase with North Vietnam, North Korea, and possibly Mongolia; should remain about the same with Albania; and should decline with Cuba. China almost certainly will provide additional supplies needed by North Vietnam to carry on its military activities in Southeast Asia and to rebuild facilities destroyed by bombing. China also will supply sizable quantities of goods to help North Korea's economy. Sino-Mongolian trade will remain small - perhaps totaling \$5 million. China will retain its role as the main prop to the Albanian economy; no major change is foreseen in the amount of goods that China will supply. Sino-Cuban trade will be affected mainly by the shortage of Cuban sugar - China already is turning to other countries for sugar ordinarily imported from Cuba.

Longer Term Prospects

48. China's recent overtures to the outside world have created a wave of excitement in the West and a scramble to get a share of the "huge" China market. This excitement is difficult to square with the PRC's longstanding attitudes toward international trade. China is serious about self-reliance, and almost all of the products imported fall into one of the following categories:

- Raw materials that China is unable to produce itself.
- Materials that China has only limited capacity to produce but for which the Chinese are developing production to phase out imports gradually.

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- Machinery and whole plants that will provide China with the industrial capacity to turn out products now being imported.

- Items of specialized equipment that will serve as prototypes that the Chinese will copy or redesign for their own purposes.

49. Moreover, Peking places great store on avoiding long-term indebtedness, which, the Chinese believe, inevitably leads to loss of political and economic independence. Trade is kept approximately in balance each year; the temptation to allow imports to outstrip exports is sternly repressed. Further, in its pursuit of leadership in the Third World, China will continue to give priority to aid programs and trade relations with the less developed countries even at the sacrifice of imports from the developed countries. The PRC's aid programs to small Communist countries and to the LDCs have been costing the Chinese roughly \$400 million a year in resources.

50. Under present policy, then, China will increase its imports only to the extent it finds new markets for its exports. Prospects are dim for substantial expansion of exports of traditional manufactures to the developed countries. Industrial raw materials are a better bet; however, China is producing only enough of most of these materials for its own needs.

51. Peking at any one time has outstanding short-term commercial obligations of about \$300 million. These obligations are comparable to a revolving credit account and are small in comparison with the total volume of foreign trade transactions and the PRC's holdings of gold and hard currency of three-quarters of a billion dollars. On occasion in the mid-1960s, the PRC arranged to pay for Japanese and West European industrial plants over a period of several years, a normal business practice applicable also to purchases of large aircraft or ships. If, in the 1970s, Peking similarly were to relax its puritanical aversion to debt, its foreign trade - especially in big-ticket items - might be raised by a few hundred million dollars on a one-shot basis.

52. In the long term, the PRC could put more stress on exploiting its resources of such materials as coking coal, petroleum, and nonferrous metals to increase sales abroad. Another possibility is for China to sell more finished and semi-finished goods rather than raw materials since such products earn more for the same volume of raw materials. The Chinese are becoming more amenable to buyer's demands in product specifications in order to make their goods acceptable to the developed markets.

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53. One long-run possibility for substantial increases in exports lies in the expansion of Chinese handicraft production geared to the affluent Western (especially US) markets. In contrast to many other Chinese export goods, handicraft products require large quantities of labor and small amounts of raw materials. Except at harvest time, the labor of older rural craftsmen could be advantageously directed toward the earning of foreign exchange. China's urban areas also suffer from underemployment, and additional man hours devoted to production of handicrafts for export would come at practically no cost to the economy. Whereas the Communists ruined handicrafts in Eastern Europe, much of the centuries-old Chinese handicraft structure and tradition remain intact; handicrafts production could flourish with proper governmental sponsorship. The Western markets are there; Chinese handicrafts enjoy a vogue and are not directly competitive with domestic products, as textiles and foodstuffs would be.

54. In the meantime, China's best export prospects lie in the less developed countries and Hong Kong, where Chinese foodstuffs and manufactures are in great demand. Markets in the LDCs may ultimately contract when and if these countries increase their own food production and start producing the types of manufactures presently imported from China.

55. Another important long-term determinant of China's foreign trade is the degree of success experienced by Peking in dealing with the food/population problem. As matters now stand, the PRC's population control program has not been pressed forcefully for a long enough period to have had an appreciable effect on demographic rates. For the next few years at least, the agricultural sector can only gradually provide more goods for export. Because agricultural products loom so large in the PRC's exports, and because Peking is deliberately reducing the PRC's dependence on imports, foreign trade is likely to grow at a slower pace than economic activity as a whole. The sizable rise in foreign trade anticipated for 1972 is the result of non-recurring factors, notably the revaluation of major world currencies in December 1971.

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APPENDIX A

Statistical Tables

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Table 1

China: Direction of Foreign Trade a/

Million US \$

Year	Total Trade			Communist Countries			Non-Communist Countries		
	Turnover	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports
1959	4,290	2,230	2,060	2,980	1,615	1,365	1,310	615	695
1962	2,675	1,525	1,150	1,410	915	490	1,265	605	660
1966	4,245	2,210	2,035	1,090	585	505	3,155	1,625	1,530
1967	3,895	1,945	1,950	830	485	345	3,065	1,460	1,605
1968	3,765	1,945	1,820	840	500	340	2,925	1,445	1,480
1969	3,860	2,030	1,830	785	490	295	3,075	1,540	1,535
1970	4,220	2,050	2,170	825	480	345	3,395	1,570	1,825
1971 b/	4,635	2,415	2,220	1,040	610	430	3,595	1,805	1,790

a. Data have been rounded to the nearest \$5 million. Because of rounding, components may not add to the totals shown.

b. Preliminary.

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Table 2
China: Trade, by Area and Country a/

Area and Country	1970			1971 b/		
	Total	Exports	Imports	Total	Exports	Imports
Total trade	4,220	2,050	2,170	4,635	2,415	2,220
Non-Communist countries	3,395	1,570	1,825	3,595	1,905	1,790
Developed countries	2,200	675	1,555	2,220	795	1,425
East Asia and Japan	1,040	300	740	1,000	365	635
Japan	855	255	600	926	320	606
Australia	175	40	135	65	40	25
Western Europe	1,015	355	660	975	400	575
West Germany	270	70	200	247	87	160
United Kingdom	212	69	143	160	68	92
France	154	57	97	191	66	125
Italy	132	56	76	125	54	71
Netherlands	58	25	33	60	35	25
Switzerland	41	18	23	41	22	19
Sweden	33	16	17	56	16	40
North America	175	20	155	245	30	215
Canada	176	22	154	239	26	213
United States	Negl.	Negl.	Negl.	5	5	Negl.
Less developed countries	790	525	265	925	565	360
Southeast Asia	270	210	60	270	220	50
Malaysia and Singapore	190	140	50	182	144	38
Indonesia	35	30	5	34	29	5
Middle East and South Asia	310	180	130	315	160	155
Sri Lanka (Ceylon)	86	46	40	78	36	42
Pakistan	61	30	31	68	31	37
Egypt	34	13	21	46	15	31
Latin America	15	10	5	60	10	50
Africa	195	125	70	280	175	105
Hong Kong and Macao	375	370	5	450	445	5
Hong Kong	359	354	5	432	428	4
Communist countries	825	480	345	1,040	610	430
USSR	45	25	20	155	75	80
Eastern Europe	320	160	160	365	185	180
Czechoslovakia	56	25	31	53	24	29
Poland	50	24	26	54	21	33
East Germany	78	36	42	80	40	40
Romania	108	58	50	145	85	60
Far East	150	125	65	260	185	75
North Korea	100	50	50	130	70	65
North Vietnam	90	75	15	120	110	10

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Table 3

China: Commodity Composition of Trade

Commodity Group	Million US \$		
	1966	1970	1971 ^{a/}
Total imports	<u>2,035</u>	<u>2,170</u>	<u>2,220</u>
Foodstuffs	510	355	265
Crude materials, fish, and edible oils	340	360	425
Chemicals	250	330	330
Manufactures	935	1,125	1,200
Of which:			
Machinery and equip- ment	455	395	450
Metals	280	600	625
Total exports	<u>2,210</u>	<u>2,050</u>	<u>2,415</u>
Foodstuffs	615	645	790
Crude materials, fish, and edible oils	480	430	500
Chemicals	90	105	125
Manufactures	1,025	870	1,000
Of which:			
Textiles (including clothing)	490	495	550-600

a. Preliminary.

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Table 4

Selected Exchanges of Trade and Economic Delegations
Between China and Non-Communist Countries a/
1971-72

Country	Date of Visit	Remarks
<u>Delegations from China</u>		
Afghanistan and Iran	Mar-Apr 1972	Trade delegation headed by Chen Chieh, Vice Minister of Foreign Trade.
Algeria, France, and Italy	Sep-Nov 1971	Trade delegation headed by Pai Hsiang-kuo, Minister of Foreign Trade, made extensive tour of three countries.
Chile and Peru	Apr-May 1971	Trade delegation headed by Chou Hua-min, Vice Minister of Foreign Trade.
Denmark, Finland, Norway, and Sweden	Sep-Oct 1971	Trade delegation headed by Chou Hua-min, Vice Minister of Foreign Trade.
Equatorial Guinea	Sep 1971	Economic and technical study group.
France	1971-72	Groups visited France to attend an oceanographic conference, the Paris Air Show, and an international electronics meeting and to inspect agricultural machinery.
Guinea	Jan-Feb 1971	Trade delegation. Annual trade agreement was signed while in Guinea.
Guyana	Aug-Sep 1971	Trade delegation.
Italy, France, and West Germany	Apr - ? 1972	Extended visit by group from China National Light Industry Products Export and Import Corporation.
Japan	Mar-Apr 1972 and later	Three delegations visited Japan in March-April: a petrochemical and synthetic fiber delegation, an automotive delegation, and a shipbuilding delegation. A high-powered delegation may visit Japan before end of 1972.
Kuwait	May 1972	Trade delegation led by Chen Chieh, Vice Minister of Foreign Trade. Group also visited Hungary.
Malaysia	Aug 1971	Trade group from China Council for Promotion of International Trade.
Mexico	Apr 1972 and later	A group was scheduled to visit Mexico in April, and a Chinatex delegation may visit Mexico in late 1972.
Netherlands	Summer 1972	A mission is expected to go to the Netherlands.
United Kingdom	March 1972	A group visited the United Kingdom to survey electronics, chemical fibers, and oceanography installations.
<u>Delegations to China</u>		
Austria	Fall 1971	A delegation from the Federal Economic Chamber visited Peking.
Belgium	Nov 1971	The Economic Commission of the Belgium-China Association visited China.
Burma	Nov 1971	An economic delegation visited China following the visit of Chairman and Madame Ne Win in August.
	May 1972	A ten-member economic delegation.
Canada	Jun-Jul 1971	Economic mission.
	Mar 1972	A group from Ontario visited China.
	May 1972	An aviation delegation and a shipping delegation.

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Table 4

Selected Exchanges of Trade and Economic Delegations
Between China and Non-Communist Countries a/
1971-72
(Continued)

Country	Date of Visit	Remarks
<u>Delegations to China</u> (Continued)		
Chile	Dec 1971 Apr-May 1972 May-Jun 1972	Economic mission. A group visited China to discuss technical aid to Chile. Economic mission.
Denmark	Jan 1972	Delegation to discuss sale of cargo vessels.
Egypt	Jul-Aug 1971	Government trade delegation.
Equatorial Guinea	Apr and Oct 1971	Trade missions visited China.
Finland	Nov 1971	Trade delegation.
France	Fall 1971	Aircraft industry delegation.
Guyana	Nov 1971	Trade mission -- long-term trade agreement signed.
Iran	Nov 1971	Trade delegation.
Iraq	Jun 1971	Economic and technical delegation.
Italy	May 1971	Government economic delegation.
Japan	Fall 1971	Business groups from the Kansai area and Tokyo visited China.
Malaysia	1971-72	Various trade missions visited China mostly to discuss rubber sales and to attend Canton Fairs.
Mauritania	May 1972	Trade delegation.
Mexico	Oct 1972 Dec 1972	Delegation from National Mexico City Chamber of Commerce. Two Mexican businessmen visited China to discuss trade.
Netherlands	Nov-Dec 1971	Economic delegation visited China for 15 days.
Norway	Feb 1972	Eight-man sales mission.
Panama	Late 1972	Planning to send a trade mission to China.
Peru	Apr 1972	Delegation to discuss Chinese use of Peruvian fishmeal.
Philippines	May 1971 Mar 1972	Trade mission of Chamber of Commerce. Five-member working and trading group.
Sierra Leone	May 1972	Trade mission.
Singapore	Oct 1971	Trade mission of Singapore Chamber of Commerce.
Sweden	Fall 1971 Mar-May 1972	Industry Minister visited China. Delegations to discuss trade and to support Swedish exhibition.
Tunisia	May 1972	Trade delegation.
United Kingdom	Jun 1971 Mar 1972 Apr 1972	Shipbuilding group. Aviation delegation to discuss airport support systems. Top-level delegation from London Chamber of Commerce.

a. This list is meant to be representative and is not necessarily complete. Ordinarily, groups whose sole purpose was to sign an annual trade agreement, to contract for an individual commodity, or to attend the Canton Fair have not been included. Also a number of dignitaries and delegations visited China to discuss economic and political matters. These visits have not been included unless trade negotiations were a major factor in the visit.

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APPENDIX B

Recent Monetary Changes and Dollar Estimates
of China's Trade

Important revisions in the exchange rates of key world currencies in December 1971 complicate the task of comparing China's foreign trade in 1971 with expected trade in 1972. Data for PRC trade are calculated on the basis of the official statistics of China's trading partners. These statistics are in the currency of the trading partner; conversions to US dollars are made at the exchange rate currently in effect. As a result of last December's revisions in exchange rates, most currencies have become more valuable in terms of the dollar - that is, the dollar value of goods moving in foreign trade has been increased by varying amounts.

In Table 5, the physical flow of China's exports and imports in 1970 are shown as (a) originally valued in terms of the exchange rates in existence in 1970 - that is, according to the old dollar - and (b) re-valued in terms of the exchange rates in existence after December 1971 - that is, according to the new dollar. The dollar figure under the revaluation is 10% higher, with imports 11% higher and exports 9% higher. The year 1970 was used for the comparison because more complete data are available for 1970 than for 1971. Because the monetary readjustment came at the end of 1971, the data for 1971 as presented in this and other reports may be taken as essentially having been calculated in the old dollar.

Terms of trade between countries have been affected by the divergent changes in exchange rates. These effects are complicated by the fact that much of China's trade is carried out in third country currencies. The bulk of China's trade is carried on in currencies that retained the existing gold par value (a revaluation of 8.57% against the dollar). Almost all of the Commonwealth countries, France and its territories, and some of the Middle Eastern and African countries fall into this category. The main exceptions are in trade with most West European countries, where the rate of revaluation varies from country to country. The Canadian dollar appreciated by about 8%, the USSR revalued the ruble by about 9.5%, and most countries of Latin America and the Middle East kept their currency at par with the dollar. Some trade is carried on in Chinese currency (the renminbi). As the renminbi was kept at par with the pound sterling, the effect of revaluation would be identical to that of the pound (8.57%).

Perhaps the best way to show the possible multiple effects on terms of trade is to use the example of Japan. Almost all of Sino-Japanese trade is carried out in pounds sterling. The value of the pound increased by 8.6%

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in relation to the dollar while the yen increased by 16.9%. The immediate effect was a loss to Japanese exporters on outstanding contracts - they were paid off in pounds that had decreased in value relative to the yen. Japanese importers gained some because of this relationship. The net effect is likely a loss to Japan because Japanese exports to China are about double imports.

As new contracts for Japanese goods have been negotiated, the Chinese have attempted to retain previous prices in terms of pounds sterling (in effect offering lower prices in terms of the Japanese yen). The Japanese have attempted just the opposite. Japan will undoubtedly give in to some extent; however, it is possible that the price differential could lead to some reduction in trade with Japan and a concurrent increase with certain of the West European countries. The revaluation of currencies will have the opposite effect on Chinese exports to Japan. These new currents in the Sino-Japanese trade relationship are hardly surprising; after all, the re-alignment of currencies had as one of its major goals the slackening off of Japan's tremendous trade surpluses.

In general, the countries that kept their currency at par with the US dollar, such as those in Latin America and the Middle East, will gain the most in terms of trade for their exports. These gains will have little effect on China's imports because these countries are not major exporters to China, and their products are not competitive with those of Japan and West Germany, countries whose currencies were revalued the most. Those countries that could gain in terms of exports to China are Italy, Sweden, and perhaps the United Kingdom and France, whose goods are competitive with those of Japan and West Germany and whose currencies were revalued less. Chinese exports to the less developed countries could be affected, barring price adjustments, because Chinese goods would cost somewhat more.

In the body of the memorandum, China's trade was forecast as advancing from \$4.6 billion (old dollars) in 1971 to at least \$5.2 billion (new dollars) in 1972. Suppose, in fact, that these prove to be the final dollar totals. How much of the 12% increase would be the result of the monetary changes, how much the result of a rise in the real volume of goods? (The worldwide inflation is not taken into account in this discussion.) To answer this question, the physical volume of trade, country by country, could be priced for 1971 and 1972, first in old dollars, then in new dollars. The PRC of course has the option of shifting at least part of its trade toward areas where the currency changes are more to its advantage as well as putting the heat on suppliers whose prices have risen in the wake of the changes. Thus the monetary effect will be less than the 10% suggested by Table 5. The intuitive judgment in the text is that, of the substantial percentage rise in China's trade expected in 1972, "perhaps as much as one-half" will be the result of the monetary changes.

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Table 5

China: Trade in 1970 as Measured in Old and New Dollars a/

Million US \$

	Percent Revaluation of Local Currency Against the Dollar	Old Dollar			New Dollar		
		Total Trade	China's Exports	China's Imports	Total Trade	China's Exports	China's Imports
Africa	5.0 b/	195	125	70	205	131	74
Australia	8.6	175	40	135	190	43	147
Canada	8.0	176	22	154	190	24	166
Egypt	--	34	13	21	34	13	21
France	8.6	154	57	97	167	62	105
Hong Kong	8.6	359	354	5	390	384	5
Italy	7.5	154	56	76	142	60	82
Japan	16.9	854	255	600	999	298	701
Latin America	-- c/	15	10	5	15	10	5
Malaysia and Singapore	8.6	190	140	50	206	152	54
Netherlands	11.6	58	25	33	65	28	37
Pakistan	--	61	30	31	61	30	31
Sri Lanka (Ceylon)	3.0	86	46	40	89	47	41
Sweden	7.5	33	16	17	35	17	18
Switzerland	13.9	41	18	23	47	21	26
United Kingdom	8.6	212	69	143	230	75	155
West Germany	13.6	270	70	200	307	80	227
Other Non-Communist countries	8.0 d/	349	224	125	377	242	135
USSR	9.5	45	25	20	49	27	22
Other Communist countries	9.0 e/	780	455	325	850	496	354
Total		4,220	2,050	2,170	4,650	2,240	2,405

a. Because of rounding, components may not add to the totals shown. Totals have been rounded to the nearest \$5 million.

b. Only approximate. The currencies of some countries remained at par with the US dollar and most of the others changed at the same rate as the British pound.

c. Most countries kept their rates at par with the US dollar.

d. Most countries changed at a rate identical with the British pound. Some remained at par with the dollar. A few changed their rates by greater amounts than the pound.

e. Some countries kept their rate at par with the ruble while others kept their rates in line with the British pound.