

6/27/58

DJ -

Ref Staff Study No. 5.

Not of primary D/E interest, though the implications as to impact and trade-control policy certainly concern us. I suggest we compare notes with S/TF, and try to get them to carry the ball.

The estimates of probable US trade with China, on certain assumptions, seem rather low. \$80 million would seem a more reasonable guess. (After all, prices have gone up since 1937 or even 1948 or 1950.)

DOC Declassification & Release Instructions on File - No referral to DOC

(Conclusion No. 2)
When the statement is made that trade "could" amount to a certain figure, it seems to me that the highest reasonable amount of trade (not the most probable) should be given. Thus the \$60 million for estimated US imports should be higher - perhaps \$100 million. Chinese imports from the US, on the other hand, are stated to be the most probable (Conclusion No. 3).

As you said, the multilateral aspect of US-Chinese trade, is not given due consideration.

The statement at the top of p. 13 that East-West trade now amounts to only $\frac{1}{2}\%$ of bloc GNP should certainly be checked. If it is true, the bloc must have a GNP of \$600 billion.

SMB

HDG

~~SECRET~~

CFEP DRAFTING GROUP
ECONOMIC DEFENSE POLICY REVIEW

Staff Study No. 5
Draft of June 10, 1955

Communist

Economic Significance of China Trade to
United States and China Trade Potential

This draft of Staff Study No. 5, "Economic Significance of China Trade to United States and China Trade Potential", is transmitted for your use in connection with the work of the CFEP Drafting Group on Economic Defense Policy Review.

In compliance with the request of the Chairman of the Drafting Group, the Executive Secretary, EDAC, is providing reproduction and distribution facilities as a service to further the work of the CFEP Drafting Group.

Irving I. Kramer
Executive Secretary

Distribution:
CFEP DRAFTING GROUP

~~SECRET~~

~~SECRET~~

I

CONCLUSIONS

(1) If the present financial controls (import controls, blocking, etc.) exercised by the United States toward communist China were lifted, it is estimated that imports of China products into the United States could amount to over \$60 million. A major segment of this trade would probably be in hog bristles, with a lesser but fairly significant volume in tung oil, cashmere and hides. Other imports would be small individually and in the aggregate. *Approx. \$80 million*

How computed?

(2) China would probably be interested in promoting exports to increase exchange earnings in general, and to finance purchases in the United States in particular. While United States importers could be expected to be especially willing to resume the purchase of hog bristles, the procurement of most other China products would probably depend primarily upon the sales promotion efforts of the Chinese.

2 Nylon?

(3) Assuming that United States exports to China were permitted in goods which are now exportable to Eastern Europe, China could be expected to import United States goods during the next two years at an annual rate of about \$60 million. United States exports to China would probably consist chiefly of steel mill products; machinery and tools; instruments; pharmaceuticals; fertilizers and dyestuffs. *Approx. \$80 million of US supplies same proportion*

Note that this is a stronger statement than ①

(4) The main impetus for the procurement of United States goods in most lines would originate with the Chinese, and the response of United States exporters would depend upon their ability to secure satisfactory trading terms.

if total free world exports to China as in 1950

~~SECRET~~

China must be interpreted throughout as Communist China.

~~SECRET~~

II

- (5) While the United States at one time needed China products, some are today preempted by the Soviet bloc and the others are replaceable by substitutes or are available from other sources.
- (6) The effect upon the United States economy of potential exports to China at the level estimated in this study would be of minor importance. While offering an added market and perhaps an acceptable profit margin to industrial and commercial firms participating in this trade, potential exports to China would, even with some expansion, amount to only a small percentage of the total United States exports and would have no discernible effect on the United States economy as a whole.
- (7) United States investments in the form of credits to finance exports to China might be needed to promote United States exports in competition with other Free World suppliers. However, extended or extensive credit risks would hardly be assumed by private firms without some form of governmental support.
- (8) In view of the basic deterrents to Free World-Soviet bloc trade --
 - a) the bloc's self-sufficiency objectives;
 - b) Free World restrictions over exports of bloc priority requirements;
 - c) inhibitions to normal commercial intercourse inherent in relations with the bloc --the long term prospects for trade with China cannot be viewed as promising and would probably not greatly exceed the amount predicted for the next two years.

~~SECRET~~

- 1 -

SECRET

SUMMARY

Assumed Level of Control

This study is based upon the assumption of trade restoration with communist China at the same level of controls which now govern United States commerce with Eastern Europe. Specifically, this would mean virtually no restrictions upon imports into the United States from communist China. In the case of United States exports to China, it would mean the continuance of an embargo of IL-I and IL-II goods, and only occasional licensing of IL-III items.

Communist China's Present Trade Pattern

During 1950, 26 percent of China's total trade was with the Soviet bloc while trade with Free World countries amounted to 74 percent of the total. Preliminary estimates indicate that of China's total trade during 1954, 75 percent was with the Soviet bloc and 25 percent with Free World countries.

In addition to military equipment, China's imports from Eastern Europe include equipment for metallurgical, chemical, and machine tool industries; power generating equipment; machinery; trucks; steel products; and metals. China also imported raw materials such as petroleum and chemical products, and some essential consumer goods from Soviet areas. Exports to Soviet countries have been mainly oils and grains, iron ore and pig iron, antimony and tungsten. [China's] ^{exports} recorded ^{to China} [imports] from the Free World have been chiefly raw cotton, crude rubber, fertilizers and other chemicals, pharmaceuticals, iron and steel, and machinery. Exports to the Free World have been largely foodstuffs, vegetable oils, and coal. Unrecorded ^{exports} [imports] from Free World sources have consisted mainly of steel products [and nonferrous metals.]

SECRET

- 2 -

SECRET

Current Chinese Trading Arrangements

China's foreign trade is controlled and supervised by The China National Import Export Corporation and by several additional agencies specializing in particular products. Private traders participate to a limited degree, but they are under strict government control and are used chiefly to develop transactions. The government allocates purchases and sales, establishes and administers trade terms, and takes over all private transactions for delivery and settlement after the initial negotiations have been concluded.

Trading terms are customarily severe, often complicated and confusing, and have been known to discourage the development of trade. There is, however, some flexibility in trade terms which vary with the urgency of China's import requirements and with conditions encountered in a particular source country. Classic payment terms in the case of exports require telegraphic transfer at the time of exportation. In the case of imports, payment is required 20 days after discharge of cargo in China. Final acceptance of merchandise for import and export rests with a Chinese testing bureau.

These terms have been explained by the Chinese as having been necessitated by the fact that Free World actions with respect to trade and transportation have developed risks which the Chinese cannot afford to assume.

Barter arrangements are concluded when feasible and trade with Japan is chiefly on a barter basis. China products are sometimes "dumped" on a trading partner in the sense that quantities are shipped in excess of a country's requirements with the result that the goods are then disposed of a third

SECRET

- 3 -

SECRET

country at market-depressing prices. In the case of more urgently needed imports, the Chinese are known to offer considerably more favorable terms. Shipments ordered via Gdynia of goods urgently needed by China are subject to payment upon delivery in Gdynia.

Historical U.S.-China Trade

Exports from the United States to China during 1948, the last representative year prior to the communist takeover, reached a figure of \$240 million, or about 2 percent of total United States exports to the world. Exports of foods, tobacco and raw materials (mainly cotton) comprised about 46 percent, while manufactured and finished goods made up about 64 percent of total United States exports to China.

Imports into the United States from China during 1948 amounted to \$117 million, or almost 2 percent of total United States imports from all countries. Hog bristles and tung oil accounted for over 40 percent of total imports from China. Other items in which there were the most substantial imports were hides and skins, wool and carpets, embroideries, and tungsten.

Total value of U.S. imports from China during 1948 are shown to be up over 1937. However, with higher prices prevailing in 1948, actual imports from China were probably about equal during these years, if not smaller in 1948. A major increase occurred in tung oil, bristles, tungsten, carpets and feathers; while smaller gains are noted in hair nets, fibers and embroideries. U.S. imports of eggs, furs and skins, silk and tin dropped off notably. Total U.S. exports to China in 1948 were almost five times the size of exports in 1937. However, much

SECRET

- 4 -

SECRET

of this larger trade was financed by aid funds which were spent chiefly for food grains, cotton, machinery, fertilizers and petroleum products. Higher prices for most U.S. exports during 1948 also contributed to the increase.

SECRET

- 5 -

SECRET

Potential U.S. Imports from China

Certain China products can be considered as being available in China for export to the United States. They may also be regarded as having marketability in the United States, in most cases by reason of their special characteristics which have in the past won ready acceptance in the American market, with only nominal competition from domestic or foreign goods. Items in this class include hog bristles, cashmere, hair nets, wool, embroideries and lace, and chinaware. Other items -- raw silk, tung oil, feathers and eggs -- may also regain a market in the United States, but only by overcoming stiff competition and possibly inhibited by restrictive regulations based on non-economic defense considerations.

There are reasons to believe that in general there may be more compelling forces to develop United States-China trade, both as to imports and exports, on the part of the Chinese than by the United States. China's import requirements for industrial products are well known; and it is reasonable to assume that she will attempt to procure some of these from the United States. Furthermore, China would be expected to promote exports to the United States in order to earn exchange for the procurement of urgently needed goods in other countries. With the exception of tung oil, China products likely to be saleable in the United States cannot be considered as essential, and would therefore appear in the American market only through trade promotion. The U.S. interest in this respect is quite likely to be considerable less than that of the Chinese.

Somewhat different circumstances exist in the case of hog bristles. This is the item in which trade is most likely to occur and in the largest volume. However, it is felt that American consumers can get along without Chinese bristles by using

SECRET

- 6 -

SECRET

European bristles and suitable American synthetics which are being constantly improved in quality and are growing in popularity. Commodity technicians believe that the current U.S. consumer preference for Chinese bristles, which is the principal reason for assuming the resumption of their procurement, would probably be dissipated within two years or so if an import ban were continued.

In the case of tung oil, the United States can be expected to have an annual import requirement for the immediate future. However, in the absence of Chinese tung oil from the American market, other foreign sources of supply, chiefly Argentina, and to a lesser extent Paraguay, have been, and will continue to be, more than sufficient to supply the American import requirement. In addition, the President might be asked to exercise his power to seek a Tariff Commission study which could lead to the establishment of import limitations in the event that foreign imports were found to interfere with domestic production and the U.S. price-support program. While tung oil is essential, Chinese tung oil is not needed, and the status of this item as a potential China export to the United States is somewhat tenuous.

The balance of the China products are considered to have a potential market in the United States only because they have characteristics which have promoted their sale in the past. They are generally not in strong competition with other products. Their marketability, in the United States would hardly depend upon their essentiality, but almost entirely upon promotional efforts. Chinese promotion might be anticipated in order to provide exchange for the procurement of industrial products essential to the Chinese economy. Promotional efforts by American importers could be expected in items like cashmere, hair nets, embroideries, silk, and possibly

SECRET

- 7 -

SECRET

carpet wool and pelts. However, unless Chinese trading terms were to be modified to a form more palatable to the American importers, their interest in promoting trade in these items would probably not be very great.

Estimates of annual imports into the United States of specified China products that might be developed during the next two years are as follows:

(million U.S. dollars)

Tung oil.....	6.6
Hog bristles.....	40.0
Raw silk.....	1.35
Embroideries and lace.....	1.0
Cashmere.....	3.0
Eggs and egg products.....	.5
Wool and carpets.....	1.0
Tungsten.....	0
Hides, skins and furs.....	2.5
Feathers and down.....	1.0
Other China products.....	5.5

Total 62.45

Potential U.S. Exports to China

Under China's program of industrialization, she can be expected to continue to emphasize the importation of capital machinery and equipment. Inasmuch as a large portion of capital goods are classified as strategic and will presumably continue to be embargoed to China by the Free World, including the United States, it can be expected that most of China's import requirements will be sought in Soviet countries. There is no reason to believe, ^{however} ~~therefore~~, that China's present ^{overall} preponderance of trade intercourse with Soviet areas will be substantially lessened.

Nevertheless, China has found it important, and possibly to a degree desirable, to procure a significant volume of goods from Free World countries in the present

SECRET

- 8 -

SECRET

stage of her intensified industrialization program. With the elimination of the *differential* CHINCOM embargo against the shipment to China of the items included in the China Special List (steel mill products, etc.) it is more than likely that Free World exports to China will increase, emphasis on procurement in Soviet areas continuing to be in those items subject to the Free World embargoes.

In general, it may be expected that procurement in Free World countries will continue in the goods now moving to China, such as raw cotton; chemicals and fertilizers; pharmaceuticals and medicinals; machinery and equipment; professional and scientific instruments; electrical goods; and steel products. With the resumption of trade relations with the United States, it is difficult to predict whether potential purchases from the United States will mean an expansion of China's imports from Free World areas, or whether such trade would simply displace imports from Free World countries where China has already established supply sources. It is probable, however, that the level of imports from Free World areas will increase somewhat, particularly in view of the trade potential in those items now on the China Special List. It is probable too that some purchases from the United States will displace imports from other free World countries.

China's procurement efforts in the United States will probably be most active in those goods in which there are efforts at procurement under existing U. S. total embargo conditions. It is probably in these items that United States supplies might displace some of the market already established by other Free World areas. Goods in this category include pharmaceuticals; electrical items; chemical specialties including dyestuffs; fertilizers; and professional instruments. The sale of United States steel products (plates, bars, tubes, etc.) would probably supplement

SECRET

- 9 -

SECRET

procurement from other countries, although it may be expected that American blackplate and tinplate secondaries might have a favorable position in the China market.

In the preparation of this survey, some recognition has been given to such factors as traditional China procurement interest; current procurement in Free World markets; the requirements of China's industrialization plan; Chinese consumer needs; and competition from other supplying Free World countries. One of the least predictable of the elements in the picture is the rigidity of Chinese trading terms and the capacity of United States exporters to adapt to them.

It is likely that in the conduct of foreign trade under difficult trading terms, United States manufacturers and traders might not be willing to match the promotional efforts of competitors in other Free World areas where foreign trade is of greater national economic importance. Barter and broad-scale bilateral trading arrangements are at variance with the United States foreign trade pattern. Yet such arrangements, [supported at least tacitly by the governments of Free World countries trading with China,] are the fabric of China's trade relations with the ^{Free World} West. Granting a readiness on the part of American traders to set aside their presumed reluctance to participate in such arrangements, their bargaining position vis-a-vis the Monopolistic and monolithic China National Import Export Corporation would be weak relative to that of Western European and Japanese competitors in the absence of organization, support, and possibly even programming, at least at the trade association if not the United States governmental level. Furthermore, China's procurement of less urgently needed requirements may very often be arranged for in countries which need China produce or are willing to accept it for future

SECRET

- 10 -

SECRET

distribution to a third country. This type of arrangement would probably not be very popular with American traders.

Annual exports from the United States to communist China that might be realized during the next two-year period are given herewith:

	(millions U.S. dollars)
Foods, beverages and tobacco	.5
Animal and vegetable oils & fats	0
Textiles fibers and manufactures	2.0
Paper and products	1.5
Base metals and manufactures (excl. steel semi-mfrs. & mfrs.)	1.0
Steel semi-manufactures	10.0
Steel manufactures	3.5
Electrical machinery, apparatus & appliances	3.0
Transport vehicles & equipment	1.0
Machinery (except electrical)	5.0
Chemicals - medicinals & pharmaceuticals	10.0
Chemicals - fertilizers	7.5
Chemicals - dyestuffs	5.0
Chemicals - other	5.0
Professional and scientific instruments	4.0
Photographic equipment & supplies and watches	<u>1.0</u>
Total	60.0

Significance to U.S. of Potential China Trade

The estimated trade potential with China within the next two years, based upon the continued embargo of the shipment of the more strategic industrial goods to that country, cannot per se be regarded as having vital significance to the United States economy.

From the standpoint of essentiality, there appear to be only three China products -- bristles, tung oil and tungsten -- which are needed as raw materials for United States industries. However, in two of these--bristles and tung oil--

SECRET

- 11 -

SECRET

substitutes and supplies from other foreign sources have practically offset the unavailability of these products from China. Tungsten might become available from China on a more economical basis than from Free World sources. However, in view of present Soviet bloc preemption of Chinese tungsten, and the questionable wisdom of restoring a communist area as a major source for this metal, it would probably not be feasible to count on Chinese tungsten as a likely or completely desirable import.

The potential market for American goods in China at the level indicated in this study, or even at a considerably expanded level, does not appear to offer any significant prospect to the American economy. The omission of China as a trading partner during the past five years without any noticeable economic effect generally supports this view. Basic elements of importance to American foreign trade, i.e., the need for foreign materials and for foreign markets to help stabilize our own economy and the economies of Free World countries, are not present in the picture of potential trade with China.

U.S. Investment Potential in and Significance to Trade With China

The term "investment" is used here to indicate the extension of long term credits to finance exports of capital goods, and not as outlays by American nationals to finance industrial development. Investment under the latter concept would not appear to be a possibility.

Potential exports of United States goods to China during the next two years can take place in any volume only in the event that exporters can comply with Chinese trading terms of a nature found acceptable in other Free World countries. China will continue to emphasize the procurement of industrial goods and capital equipment. Although U.S. drugs, dyes, fertilizers, and cotton may figure in her

SECRET

- 12 -

SECRET

import procurement to some extent, it is in the field of industrial development equipment in which China may be expected to seek credits.

While the extent of credit financing of exports by Free World countries to China is not known, several of them have government export credit guarantee and insurance facilities which guarantee credits to exporters for a substantial value of a transaction up to five years ^{regardless of destination} for capital goods. The magnitude of U. S. exports will depend to an appreciable degree upon the acceptance by American exporters of terms which may include the extension of credits, particularly in the case of competitive goods offered by other Free World countries. Extension of credits by American exporters to finance exports to China could hardly be expected without government guarantees to match those provided by Free World governments.

Modify

Long Range Potential U.S. Trade With and Investment in China

Certain elements, which will probably be present in the international scene for some time, appear to discourage the development and growth of U.S.-China trade and the extension of commercial credits to finance such trade. They are (1) the obvious Soviet world interest in achieving self-sufficiency in economic goods and a reduction of reliance on commerce with the Free World; (2) the Free World joint efforts to continue to deny the exports of strategic goods to the Soviet bloc; and (3) the Soviet bloc preference for importing economic developmental goods of a strategic nature.

With emphasis in China upon industrial development and military potential, state-controlled procurement from foreign sources can be expected to be in hard goods and raw materials. Potential consumer needs which may be permitted fulfillment will be satisfied mostly from internal production and Soviet bloc sources.

SECRET

1953
get 34 figures

- 3 -
SECRET

Dr. H. (1953)

At present, Free World trade with the Soviet bloc has been estimated to amount to only one-half of one percent of the bloc's total gross national product. In 1953, Soviet bloc exports to the Free World were about \$1.6 billion and imports were \$1.4 billion. China's total foreign trade with the bloc is estimated at \$1.65 billion and trade with the Free World at \$550 million. *for 1954* *Sum is 2.5 b*

There is evidence, however, that production of industrial equipment in Soviet countries is inadequate to meet China's full import requirements. With the relaxation of CHINCOM controls to permit the United States and Western Europe to export items now permitted for export to Eastern Europe, China could be expected to seek increased imports from Free World sources. It is likely that while considerably increased buying of industrial goods from Western countries would take place during the immediate future, the maximum procurement might not take place until later when trading principals have had an opportunity to become adjusted to new trading practices and arrangements. To the extent that the granting of credit might be a factor in the expansion of exports to China, it is felt that maximum possibilities might not be realized within the space of two years, and that there might be room for additional trade beyond the expiration of this period. Even in the long view, however, it is difficult to believe that under the existing and foreseeable forces separating the two worlds, there can be a resumption of a kind of commerce with China which would greatly exceed the estimates for the immediate future. *to China*

SECRET

- 14 -

SECRET

COMMUNIST CHINA'S TRADE PATTERN

*Review
5/1*

Since 1950 China has succeeded in increasing its foreign trade and has concentrated on importing military equipment, capital goods, and industrial raw material. In 1950, China's total trade was estimated at \$1,082 million, of which \$282 million, or 26 percent, was with the Soviet Bloc. Trade with Free World countries totalled about \$800 million or 74 percent of the total. Preliminary intelligence estimates indicate that China's total trade for 1954 will be \$2,200 million, of which \$1,650 million, or 75 percent, will have been with the Soviet Bloc. Trade with the Free World for 1954 is expected to total \$550 million or 25 percent of the total.

Except for military equipment received on a grant basis and Soviet credits of \$300 million for the period 1950-54 China appears to have financed its imports from the European Bloc countries with its own exports: principally soy beans, vegetable oils, grains, antimony, coal, iron ore, wolfram and pig iron. Some of these exports to Eastern Europe have been diverted or re-sold to Western countries, in part for the account of European Bloc countries. In addition to military equipment, China's imports from Eastern Europe include equipment for metallurgical, chemical and machine tools industries, power generating equipment, machinery, trucks, steel products, and metals, these capital goods comprising one-third of the total imports from the Bloc. In addition China imported raw materials such as petroleum and chemical products, and essential consumer goods.

SECRET

- 15 -

SECRET

Since 1951 China's trade with Free World countries has been substantially in balance. It has imported principally raw cotton, crude rubber, fertilizer and other chemicals, iron and steel, and machinery, and has paid for them mainly with exports of foodstuffs, vegetable oils, and coal.

Of China's recorded imports from the Free World in 1953 (derived from exporting countries' trade statistics) of \$280 million, the values of the principal commodity groups were as follows: (in millions of dollars) cotton, 16; rubber, 54; drugs, 40; other chemicals, 55; metals, machinery, and equipment, 70; miscellaneous, 35. For the first half of 1954 the values were as follows: cotton, 35; rubber, 17; drugs, 20; other chemicals, 25; metals, machinery, and equipment, 10; miscellaneous, 30.

It is estimated that China's total recorded trade with the Free World will have dropped from \$585 million in 1953 to \$550 million in 1954, although China's total trade (including that with the Bloc) will again reach \$2,200 million. Free World exports will have dropped from \$280 million to \$268 million.

Western Europe's exports in 1954 will have dropped to \$71 million from \$100 million in the previous year. Hong Kong will have dropped from \$95 million to \$68 million, and Ceylon (rubber) from \$55 million to \$48 million. On the other hand, Japan will have risen from \$5 million to \$15 million, and Pakistan (cotton) from \$4 million to \$36 million. The total for all other areas will have risen from \$21 million to \$34 million.

SECRET

- 16 -

SECRET

In addition to China's recorded imports (that is, recorded by Free World countries as exports to China), it is estimated that unrecorded imports totalled \$93 million in 1953, of which \$65 million (mostly iron and steel) was from Western Europe by virtue of transshipments via Eastern Europe, and the remainder largely by smuggling through Macao and Hong Kong.

China's exports outside Eastern Europe, as recorded for 1953 by the Free World countries concerned, are estimated at \$323 million. Exports to Western Europe in 1953 amounted to approximately \$110 million and consisted mainly of vegetable oils and oil seeds, egg products, and cereals. Western Germany (\$35 million) and the United Kingdom (\$30 million) were the major markets in this area. Of the remainder, approximately \$115 million were exported to Hong Kong, Malaya and Macao, consisting largely of foodstuffs and native products for the resident Chinese population in those areas. Exports to Ceylon (\$40 million) consisted largely of rice in exchange for rubber. It is estimated that China's exports to the Free World will have dropped to \$282 million in 1954, although a breakdown of this figure is not immediately available.

SECRET

- 17 -

SECRET

PAST PATTERN AND SIGNIFICANCE OF U.S. EXPORTS TO CHINA

Exports from the United States to China during 1937 amounted to \$49.5 millions out of total United States exports of \$3.3 billions, or about 1.4 percent. During 1948, the last representative year before the communist takeover of the China mainland, United States exports to China amounted to about \$240 millions out of total exports of \$12.5 billions, or about 1.9 percent.

The Chinese import interest in United States goods in 1948 included commodities in all of the principal groups. The more important volume was in textiles and manufactures, \$65.9 millions; machinery and vehicles, \$45 millions; vegetable food products, \$37.5 millions and miscellaneous products, \$25 millions. More specifically, principal exports were in the following commodity classifications: raw cotton, \$64 millions; grains and preparations, \$37 millions; petroleum products, \$13.9 millions; aircraft and parts, \$11.7 millions; tobacco and products, \$8 millions; vehicles and parts, \$8.4 millions, steel mill products, \$7.6 millions; electrical machinery and apparatus; \$5.6 millions; engines and turbines, \$5 millions and industrial machinery, \$4.6 millions.

The following table presents the values of total U.S. exports, and of principal commodity groups and items, to the world and to China, for the years 1937 and 1948. There are also indicated the percentages which these exports to China are of total U.S. exports for these years and in these categories.

SECRET

- 18 -

SECRET

U.S. Exports to World and To China, 1937 and 1948
Total Value and By Principal Commodity Groups and Items,
Together With Percentages Exported to China
(Thousands U.S. Dollars)

Principal Groups & Items	<u>To All Countries</u>			% of Total U.S. 1937 Exports	<u>To China</u>		% of Total U.S. 1948 Exports
	1937	1948			1937 Exports	1948 Exports	
<u>Total U.S. Exports</u>	3,298,929	12,493,998	.	49,545	1.4	239,787	1.9
<u>Vegetable Food Products & Beverages</u>	282,601	2,159,552	.	1,028	.4	37,496	1.7
Grains & Preparations	94,143	1,704,657	.	153	.2	37,305	2.2
<u>Vegetable Products,</u>							
<u>Inedible</u>	209,150	562,106	.	7,353	3.5	13,038	2.3
Rubber & Allied Prod.	32,079	131,630	.	479	1.5	4,282	3.3
Tobacco & Mfrs.....	134,520	286,961	.	6,671	4.9	8,410	2.9
<u>Textile & Mfrs</u>	467,525	1,359,066	.	843	.15	65,946	4.8
Raw Cotton	376,040	510,935	.	584	.2	64,025	12.5
<u>Wood & Paper</u>	136,264	248,181	.	4,016	3.0	8,365	3.4
<u>Petroleum Products</u>	376,239	686,883	.	5,507	1.4	13,947	2.0
<u>Metals & Mfrs</u>	494,602	1,124,631	.	12,276	2.5	12,280	1.1
Steel Mill Products.	88,091	636,910	.	8,796	9.9	7,588	1.2
<u>Machinery & Vehicles</u>	838,017	3,678,006	.	10,582	1.2	45,016	1.2
<u>Electrical Mach. & Apparatus</u>	112,576	491,212	.	1,188	1.0	5,619	1.1
Engines, Turbines and Parts.....	15,546	195,774	.	118	.7	4,900	2.5
Textile, Sewing & Shoe Machine.....	10,960	152,166	.	141	1.3	5,193	3.4
Industrial Machinery	240,471	380,876	.	1,874	.78	4,609	1.2
Aircraft, Parts & Accessories.....	39,404	154,146	.	3,962	10.0	11,719	7.6
Vehicles & Parts....	412,183	1,272,071	.	2,829	.7	8,385	7.0
<u>Chemicals & Related Products</u>	153,335	777,428	.	3,890	2.5	15,258	2.0
<u>Miscellaneous Products</u> (Incl. Photo goods, Scientific equip., etc.)	111,669	674,860	.	2,691	2.4	25,416	3.8

SECRET

- 19 -

SECRET

TRADING ARRANGEMENTS

While the Chinese communist government, operating through its foreign trade organ, the China National Import Export Corporation (CNIEC), is the sole purchaser and seller of imports and exports, private Chinese import and export houses do exist to develop and consummate transactions on behalf of CNIEC. The extent to which CNIEC is directly involved in transactions is not clear. It has been indicated that in exporting the Chinese merchant is only a middle man, with no control over the shipment after he has made the sale. Apparently the authorities have reserved the right to switch shipments arbitrarily without notifying the exporter.

Monthly regional quotas are established for purchases and sales, with no departures permitted from these plans despite the attractiveness of offers. Firms may operate only within their own region. Chinese trading firms have complained to their contacts that they are largely in the dark as to the types and quantities of purchases and sales which CNIEC will authorize. The orders they have solicited are submitted to CNIEC in competition with other merchants and without advance knowledge of the acceptability of the product.

The Chinese government has set up a system of floor prices for principal export commodities. The rationale behind this action is along these lines: The terms of trade with the West have been traditionally unfavorable to China. Predominantly agricultural, China has only vegetable and animal products for export, whose prices are set on the world market. The prices of China's imports are less flexible, as competition among industrialists is more limited. Floor prices are calculated to permit the accumulation of larger exchange reserves and presumably the earning of greater returns for agricultural producers.

Western importers are pursuing two courses in dealing with the floor price problem: (1) develop barter; and (2) break down floor prices by hard Western bargaining. In a barter deal price is set for any transaction solely by reciprocal demand. The foreign customer makes a definite proposal to the Chinese merchant, indicating what commodities are considered for exchange and at what prices and conditions. This proposal is then submitted to the Chinese authorities and either accepted, rejected or modified. The high floor prices of Chinese exports are compensated for by a surcharge on the price of imports imposed by the Western supplier. It has been indicated that when the Chinese government became aware that barter was not permitting increased profits it took measures to restrict barter to slow-moving export commodities while reserving products in real demand for cash sales.

The Chinese authorities have also established tie-in sales wherein foreign buyers of desirable Chinese goods are required to take some of the less desirable merchandise, with the consequence that even those slow-moving

SECRET

- 20 -

SECRET*Sterling*

items permissible for barter can sometimes be sold in cash transactions. As to the second way of counteracting floor prices, by hard Western bargaining, there had been strong competition among Chinese exporters with admissions of their part that floor prices were not firm. There have been later indications, however, that floor prices on items not permitted for barter are being rigidly maintained.

As of the latter part of 1954 payment terms offered by Chinese firms for Western Europe-China trade were as follows: Exports to China are generally covered for payment by Letters of Guarantee (L/G) to be opened by the Bank of China in London, undertaking to reimburse the shippers with telegraphic transfer (TT) in pounds sterling 15-20 days after discharge of the cargo at a designated port in China. In addition the Chinese consignee reserved the right to assert a claim for full or partial rebate from the shipper within 60 days where the local Chinese commodity inspection and testing bureau found the goods unsatisfactory. The decisions of the inspection and testing bureaus were to be regarded as final. Western traders were resisting these terms, stating that they could not accept the Chinese bureau's analysis as final, that they were being given no chance to discuss or review the inspection bureaus' findings, but indicating a willingness, however, to be bound by the findings of any mutually-agreed Western European commodity inspection and testing organization. It should be noted that the Chinese have been willing to make exceptions to policies and rules where the need is sufficiently great. Thus several Western firms have been offered the privilege of receiving payment when goods of high priority leave the Polish port of Gdynia en route to China.

Imports from China must be paid for through the establishment of an irrevocable letter of credit, with telegraphic transfer (TT) reimbursement to be made upon presentation of the shipping documents in China. The certificate of the local Chinese commodity inspection and testing bureau as to the weight and quality of the Chinese export product must be accepted as final.

25X1B0a

In general, information respecting Chinese trading techniques is sketchy. U.S. consular officers have hardly been in a position to be very inquisitive of foreign businessmen regarding their problems of trade with China. The

25X1B0a

Despite the generally unfavorable aspects of the foregoing discussion the fact remains that fairly extensive trade with the Free World is being conducted by China, totalling over \$500 million for imports and exports for each of the past three years. In both the United Kingdom and West Germany, responsible businessmen, at least tacitly supported by their governments, are uniting to exact improved trading terms from the Chinese. Despite inherent reservations as to such a role, serious consideration would seem to be in order of the possibility of the U.S. Government's joining the American business community in developing a unified U.S. trading policy and program toward China -- and to the Soviet Bloc as a whole -- in order to secure maximum commercial advantage.

SECRET

25X1C8b

SECRET

Private merchants were reported to operate partly on their own account and partly for government organizations, but for purposes of credit standing, they should be regarded as private merchants. Information on credit standing was said to be available from banks authorized to deal in foreign exchange and from trade associations and federations located in China.

The trading program of the Chinese Government is based upon the requirements of the five year plan which is sub-divided into annual programs. As to exports, some are subject to seasonal considerations and sales tend to be concentrated in the fourth and first quarters. Normal variation in internal requirements makes it difficult to predict availability for export, but it is possible to modify the internal consumption pattern to fit the necessary export program.

No specific seasonal program for purchases was acknowledged, and it was indicated that normal seasonal requirements generally set the pattern for the timing of imports.

The major part of China's export trade is handled by various specialized export corporations which are listed below. While the China National Import Export Corporation does engage in export trade, the major portion is handled by the export corporations.

The CNIEC is the major organization dealing in imports into China. This organization maintains branch offices, but there is no fixed distribution of business between the central office and branch offices. However, the consumption area of a particular item may often indicate that the item is to be procured by the branch office in that area.

The head office of CNIEC in Peking takes a major part in the development of imports while the domestic branches of the organization may play a major part in the export field. CNIEC maintains a Berlin office which is a part of the head office in Peking, and is represented by the China Resources Company in Hong Kong on an agency basis. All of the export corporations have offices in the main port cities except the Minerals Export Corporation, which operates from Peking.

List of Chinese Trading Organizations

Ministry of Foreign Trade, Peking
China National Import and Export Corporation, Peking
Branches in Shanghai; Tientsin; Hankow; Canton;
Tsingtao; Dairen and Berlin. Agent in Hong Kong.

SECRET

- 22 -

SECRET

China National Cereals, Oils and Fats Export Corp., Peking
China National Native Produce Export Corp., Peking
China National Animal By-Products Corp., Peking
China National Silk Corporation, Peking
China National Tea Export Corporation, Peking
China National Foodstuff Corp., Peking
China Ocean Shipping Agency, Peking
China National Sundries Export Corp., Peking
China National Mineral Export Corp., Peking
China Ocean Transportation Company, Peking
China National Cotton, Yarn and Cloth Corp., Peking

Sales to China have generally caused more difficulties in this respect than purchases from China. Contracts have been found to be quite flexible and usually dictated by expediencies.

25X1X4

25X1X4

For exports from China, the certificates of the Bureau of Testing and Inspection should be regarded as final for purposes of original payment. In the case of imports into China, certificates of reliable manufacturers or of mutually approved bodies should be acceptable. In both cases, the buyer has the right to submit claims for discrepancies in quality or weight not arising from insurable causes. Exceptions to this procedure are also reserved, and the CNIEC will probably continue to make payment dependent on final inspection in China in certain cases.

The CNIEC would not agree to arbitration under the rules of the International Chamber of Commerce, since some of its member countries do not have diplomatic representatives in China. However, the Chinese indicated that they would study this procedure further. Arbitration should be carried out in the country of the defendant. In case the named arbitrators could not agree, the dispute would be referred to an umpire whose decision is final.

As to payments terms, the Chinese pointed to the reasons why they could not accept terms which would make them the owners of goods on the high seas. Certain trade and shipping restrictions against China introduce a risk of loss the Chinese have not been willing to face.

25X1X4

The Chinese recognized the problems and disadvantages arising from the resale of their goods by Eastern European countries, and while agreeing in principle with the suggestion that these sales be brought under control, they pointed out the disadvantage of their holding large sterling balances for purposes of

SECRET

- 23 -

25X1X4

SECRET

multilateral trade at the present time.

25X1X4

Arrangements with Japan

Originally, China-Japan trade was conducted on a barter basis in which letters of credit had to be opened simultaneously in both countries. The Chinese, however, required that shipments from Japan be inspected in China before counterpart shipments could be made to Japan.

A later modification was intended to facilitate the movement and financing of this trade by allowing a credit by the Bank of China to the Chinese merchant involved in the transaction, in order to finance the procurement of goods for export to Japan. The Chinese merchant would collect payment upon delivery of goods on board carrier for shipment to Japan. Payment for imports from Japan was made in sterling upon arrival and inspection of goods in China.

This procedure proved to be inadequate and a further revision was made under which shipment of Chinese goods to Japan can be arranged based on a guarantee that shipment by Japan to China of an equivalent value of goods take place within 6 to 9 months. Payments in sterling are made after receipt of imports.

Arrangements have also been concluded for financing these transactions directly through the London branches of the Bank of Japan and the Bank of China rather than, as previously necessary, through the London branch of the Hong Kong and Shanghai Bank.

The excess of Japanese imports over exports, since this trade is characterized as primarily barter, is explained by the larger Japanese purchases from China of rice, soya beans and salt which were paid for in sterling, and Japan's delay in making the counterpart shipments. The Japanese Ministry of Trade and Industry has stated that efforts are being made to close the gap, but difficulty has arisen in finding suitable counterpart exports which are not embargoed.

Arrangements with West Germany

In general, the German exporters of goods to communist China have encountered about the same hindrances to the consummation of export transactions as were faced by traders in other Free World countries. The practice by official Chinese trading agencies of using private trading establishments mainly to develop the most economical and desirable procurement opportunities for goods having varying degrees of import priority into China would bring to an

SECRET

- 24 -

SECRET

abrupt end numerous trade promoting activities. A free Chinese market permitting easy access to market conditions and information by experienced trading establishments would justify the pursuit of offers only within well known market requirements.

The regionalization of trading activities in China with the establishment of quotas for goods and exchange allocations for the various regions has also served to complicate the sale of German goods to China.

Increasingly difficult payment terms have probably been the prime factor in retarding the development of West German exports to China. Early in 1954, a German exporter would receive payment 10 to 15 days after his goods had been unloaded in a China port, with the Chinese given the right to recover all or any part of their payment within 30 days if the goods failed to pass Chinese inspection. In the case of German imports from China, the German merchant would be required to make full payment before the goods were laden on vessels in China, and in the event of unsatisfactory merchandise, there was no recourse. In September 1954, The Chinese lengthened the payment period in the case of German exports to 20 days after discharge of cargo in China and set a 60-day period for consignees to make claims. Occasionally, the payment period was fixed at 15 days. These more severe payment terms together with the provision by the Chinese that their test would be final as to acceptability of goods is reported to have caused the withdrawal by several German traders from the trade and promised to reduce further the volume of industrial and other German exports to China.

It should be noted that the above payment terms were not inflexible and that the Chinese allowed more liberal terms in the case of items for which there is an urgent demand in China. After some indication by the Chinese earlier in 1954 of dissatisfaction with the routing of German shipments via Gdynia because of serious delays in moving cargo through that port, there was again a revival of interest in using this port later in the year. Certain specified items were being sought from a German exporter for shipment to China via Gdynia with payment upon arrival of goods in that port. In the case of less urgently needed goods, the Chinese were offering to reimburse the German exporter with T.T. after 15 days upon arrival of goods at a designated China port. However, shipments would continue to be subject to final inspection in China.

- 25 -

SECRET

EXPORTS

The attached material represents an effort (1) to identify the commodities and commodity groups which could be freely exported from the United States to China under an assumed degree of relaxation; (2) to evaluate a possible China procurement interest; and (3) to cite some of the indications of historical and recent trade patterns.

Identification of Commodities

Under the specified condition of control relaxation over exports to China, the United States would be free to export (1) the range of unrated commodities now exportable without restriction by other CHINCOM countries; and (2) the range of "China Special List" commodities which are rated below II-III and are now subject to export embargo to China by all CHINCOM countries. No attempt is made here to develop a "permissive list" of exports. A selection has been attempted of some of the specific commodity groups more likely to be sought by the Chinese (i.e., fertilizers, dyestuffs, medicinals) and to identify broad categories of merchandise which can be more conveniently considered on such broad basis.

China Procurement Interest

The latter is the most dependable source of information respecting the movement of goods in the range of unrated items exportable by CHINCOM countries, although these trade data also include a certain amount of restricted goods shipped to China through licensing errors, by virtue of exceptions, or for other reasons. The other sources are useful guides for the determination of China interest in rated goods which, under a specified degree of control relaxation, might be considered for shipment to China. However, it is necessary to eliminate highly-rated items (copper, bearings, etc.) which would continue under embargo under the U.S. application of the COCOM level of control.

Although the determination of items of import interest to China from Free World sources can be readily made, it should be noted that many of these items, although permissible for export by Free World countries, will be sought in Soviet countries when availability and trading circumstances warrant such purchases. This will apply in the case of fertilizers, paper, steel mill products, and some foodstuffs.

Trade Pattern

The most pertinent guide to the identification of merchandise moving into China from the Free World, ex-United States, is found in the export trade statistics

SECRET

- 26 -

SECRET

of these countries. These data are, however, not complete and accurate because of classification differentials in the trade statistics of the various exporting nations and because of the tendency of many countries to show combined exports to China and Hong Kong, and sometimes to China and Macao and Formosa. Hong Kong continues to be a receiving point for a large volume of goods ultimately destined for China, and the difficulty of estimating the extent of duplication adds to the margin of error in the compilation of Free World trade with China.

No estimates are attempted here of the illegal movement of U.S. merchandise to China. The various sources of information showing some of the items moving to China identifiable as of U.S. origin serve only to indicate to some extent the China procurement interest in U.S. goods. Although some figures are presented to indicate the precontrol shipments of U.S. goods to China, these can hardly serve to indicate more than an identification of goods having once found favor in the China market, and a level of former trade as a basis for comparisons.

SECRET

- 27 -

SECRET

FOODS, BEVERAGES & TOBACCO

I. Control Coverage

Items in this category are not rated and are exportable by Free World countries, ex-United States, to China without restriction.

II. China Procurement Interest

China is primarily an agricultural country, generally self-sufficient in basic foodstuffs. Some items (sugar, spices, tobacco, coffee) may be sought in the West, but are usually available from Far Eastern countries and Soviet areas. Except for emergency food import requirements developing from food deficiencies caused by flood and drought damage, China's major import requirements can be expected to be filled by Far Eastern and Soviet countries.

III. Trade Pattern

Free World exports to China during 1953 amounted to \$4.1 millions. U.S. exports to China during 1948 amounted to \$37.5 millions of foods and beverages, and \$8.4 of tobacco and products.

IV. Potential U.S. Market

Chinese food importing interest as indicated by trade agreements with Soviet countries, and by trading delegations of Free World areas is as follows: sugar from Poland and Indonesia; coffee and pepper from Indonesia; rice, food beans and pulses from Burma; edible seaweed from Japan, and tobacco from India.

Except for possible emergency food requirements, China's food requirements in the Western world may be expected to remain small and the U.S. participation in the China market very limited.

The extent of imports of these items from Free World countries, which amounted to \$4.1 during 1953, can be assumed as a guide for estimating potential future import requirements. In the absence of unusual famine conditions in China, it is unlikely that the level of annual imports during the next two years would greatly surpass the 1953 volume. It would be over-optimistic to believe that the United States share of trade in these items would exceed \$.5 million on an annual basis.

SECRET

- 28 -

SECRET

ANIMAL AND VEGETABLE OILS & FATS

I. Export Control Coverage

Nothing in this category is subject to international controls toward China.

II. China Procurement Interest

Since there is no Free World restriction against exports of these items, it is assumed that recent China imports are representative of her current import requirements. Import interest during 1953 was indicated chiefly in coconut oil, and to a lesser extent in marine and fish oils, total imports reaching about \$4.7 millions.

III. Trade Pattern

Free World exports to China during 1953 were as follows:

Coconut oil	
from Malaya	\$1.9 millions
from Hong Kong	.08
from Ceylon	2.428
Marine & fish oil	
from Hong Kong	.281
TOTAL	\$4.689 millions

U. S. exports during 1948 were:

Animal fats	\$ 10,842
Veg. oils & fats-edible	698
Veg. oils & fats-inedible	142,063
TOTAL	\$153,603

IV. Potential U. S. Market

Trade agreements show import procurement plans for edible oils from Indonesia and Czechoslovakia and inedible oils from Indonesia.

Unless the China requirement should swing from coconut oil to fats and oils available in the United States, it is likely that Far Eastern countries will continue to meet China's requirements for these items.

There is no reason to believe that China would find it economical and desirable to shift from the procurement of relatively inexpensive vegetable oils in nearby Asian countries to the purchase of American fats and oils which would generally be more costly. China's emphasis on industrial development would indicate the use of probably limited U.S. dollar exchange for other types of American products. No procurement of these products is anticipated for export to China during the next two years.

SECRET

- 29 -

SECRET

TEXTILES FIBERS AND MANUFACTURES

I. Control Coverage

These are unrated, except for nylon parachute cloth.

II. China Procurement Interest

The principal recent buying interest has been for raw cotton, wool tops, and cotton and jute manufactures.

Cotton production in China is estimated at about one-third more than pre-war and has reached 3.2 million bales. The textile industry has expanded, showing an estimated production of 466,000 metric tons for 1953 and a target of 550,000 metric tons for 1957.

III. Trade Pattern

Procurement from Free World sources in 1953 of raw cotton amounted to about \$18.6 millions. Free World exports of wool tops to China during 1953 amounted to \$18.8 millions; textile manufactures, \$7.9 millions; and other fibers and manufactures, less than \$1 million.

IV. Potential U.S. Market

Pakistan is the chief supplier of raw cotton. Egypt ranks second. Wool tops are being obtained from the United Kingdom. Current imports of other textile fibers from Free World sources is nil. Import interest has been indicated to trade delegations and in trade agreements as follows: fabrics from Poland; rayon and wool tops from the United Kingdom; synthetic fibers, cotton textiles and fishing nets from Japan; textiles from France; and rayon, cotton, and wool yarn and cotton fabrics from Italy.

China is likely to continue to show an import requirement, particularly for cotton, for some time to come. Procurement in the United States is possible, but would depend upon availability of credit, competitive prices, promotional effort and payments arrangements.

Even though it may be expected that substantial import requirements of cotton will continue in the near future, it is difficult to establish the extent of China's cotton procurement from Free World sources. A more conservative view might be that a continued expansion of the textile industry can be expected, but that the additional cotton requirements for expansion may be met from expanded local cotton production. Under such circumstances, total import requirements during the next two years might not exceed the level of 1953 imports which reached \$18.6 million. Provided that U.S. cotton can be offered at prices competitive with cotton from Pakistan and other sources, and trade terms could be met, U.S. cotton imports might reach a substantial

SECRET

- 30 -

SECRET

TEXTILES FIBERS &
MANUFACTURES (Continued)

portion of China's import requirements. There is, however, a single important impediment factor. China's availability of U.S. exchange could for some time to come be regarded as seriously limited, and official China policy could therefore be expected to emphasize that the purchase of U.S. goods be in industrial lines, particularly when raw material can be obtained from Asian countries where some market could be expected for the products of China's light industries. If U.S. cotton were imported, the volume would probably not exceed \$2 million on an annual basis for the next two years.

SECRET

- 31 -

SECRET

PAPER AND PAPER PRODUCTS

I. Control Coverage

Nothing in this category is subject to international controls above the China List except uncoated dielectric paper which is rated IL III.

II. China Procurement Interest

Estimated Chinese paper products output during 1953 was 450 million metric tons. Target production for 1957 is placed at 600 million metric tons. Free World imports from China are recorded at \$6.3 millions in 1953 and are believed to be finer papers such as parchment, drawing, etc.

The level of the substantial recent imports from Free World countries probably indicative of the extent of China's current interest in paper imports, since there is no prohibition by Free World countries, ex-United States, against shipments to China. Some paper is reported to have been imported from the Soviet bloc.

III. Trade Pattern

United States exports during 1948 amounted to \$6.5 millions which consisted largely of bond paper and cigarette paper. Of China's total paper products imports during 1948 amounting to about \$13 millions, about \$5.2 millions was newsprint and some \$4.7 millions cigarette and bond paper.

Total paper and paper products shipped by the Free World, ex-United States to China in 1953 is valued at \$7.8 millions.

IV. Potential U. S. Market

The following import procurement interest has been indicated trade agreements: paper (probably newsprint) and paperboard from Finland; paper (probably newsprint) from Poland; and cigarette paper from Italy.

Some interest in the procurement of Free World paper and products will probably continue. The U.S. share of the China market possible in certain paper specialities would probably not be large. Among the factors which would determine the development of any market in China for U.S. items in this category are availability of credit, competitive prices and quality, promotional effort and payments arrangements.

SECRET

- 32 -

SECRET

PAPER & PAPER PRODUCTS
(Continued)

There is probably only a limited basis for expecting that imports from Free World sources in these items in the near future will be greater than the 1953 level which was \$7.8 million. The potential is probably greatest for paperboard products. However, it could be expected that on a long term basis, China will develop her own production facilities for paperboard. During the next two years however, U.S. suppliers could expect to sell paperboard and paper specialties (particularly cigarette paper) to China providing China is willing to grant these items an import priority from the United States equal to other industrial products which would make a more important contribution to her economic goals. A maximum of \$1.5 million might be considered on an annual basis for the next two years.

SECRET

- 33 -

SECRET

BASE METALS & MANUFACTURES
(Excl. Steel Semi-mfrs & Mfrs.)

I. Control Coverage

Items included in this group are copper, nickel, aluminum, lead, zinc and tin semi-manufactures. Except for two items, these are rated II-III and higher. The two items rated below II-III, suitable for electrification of homes and buildings, are (1) flexible metal tubing and (2) single or multicore electric power cables insulated with paper and metal sheathed.

II. China Procurement Interest

There are indications that China has an import requirement for large quantities of metal products in the II-III and higher ratings for the expansion of her electrical energy production program. Heavy import requirements have been frequently identified for copper cables and wires. Since strictly accurate characterization is generally not possible in the information developed about this trade, the extent of China's interest in the procurement of the building materials type of electrical wiring and conduits is not known.

III. Trade Pattern

Total U.S. exports of all copper manufactures to China during 1948 amounted to \$1.7 millions. The bulk of this trade was in electrical energy producing and conduction material.

Nonferrous metals shipments to China via Macao from Western countries during 1953 in circumvention of CHINCOM controls is estimated at about 750 tons. Seaborne shipments of these items from Soviet bloc countries in 1953 are estimated at about 15,900 tons, 2,300 tons of which is estimated to have originated in Western countries.

IV. Estimate of Potential U.S. Market in China

China could be expected to buy these permitted exports from Free World countries in some quantity since they are needed in her building program and their importation from Free World sources would free her limited copper supplies for use in the manufacture of copper products which will continue to be embargoed for shipment to China by those countries. Heavy overall copper products requirements on Soviet bloc countries would also be reduced in favor of those items now procureable in the Free World. The extent of import procurement from all sources and from the United States can be only a guess. If annual imports during the next two years from all Free World areas reach \$3 million, the United States share could conceivably be as much as \$1 million.

SECRET

- 34 -

SECRET

STEEL SEMIMANUFACTURES (STEEL MILL PRODUCTS)

I. Control Coverage

With the exception of alloy and stainless steel products (i.e., electrical sheets, etc.) the bulk of the steel mill products category is rated in the China Special List, below the II-III level.

II. China Procurement Interest

Steel products are known to have a high procurement priority in China. Special purchasing emphasis has been on steel sheets and plates, galvanized and mild; blackplate; pipes and tubes including galvanized; angle bars and tinplate. Chinese production of many of these items supplies only a small part of requirements. There is evidence of a considerable import requirement which cannot be satisfied by Soviet bloc areas and is currently sought in and satisfied to some extent by diversions from Western Europe.

III. Trade Pattern

During 1948, U. S. shipments of steel mill products to China amounted to slightly more than \$7.5 millions. During 1953, Free World shipments to China are recorded as 110,000 tons valued at \$19.3 millions.

Unrecorded transshipments of steel of Western European origin in 1953 via Soviet bloc countries amounted to about 220,000 tons valued at about \$50 millions, and were probably chiefly seaborne. These were largely in circumvention of the CHINCOM embargo on iron and steel shipments to China imposed during the latter half of the year. Similar unauthorized transshipments via Macao amounted to about 7,000 tons. Soviet bloc shipments of steel seaborne amounted to about 95,100 tons. Soviet bloc overland shipments of steel are estimated at from 200-300,000 tons and comprised steel especially ordered for urgent Chinese requirements, as compared with standard sizes and shapes brought in from Western countries.

IV. Estimate of Potential U.S. Market in China

China's industrialization program will continue to consume important quantities of steel products for some time to come, and internal production, although gradually expanding, will supply only a small part of her requirements. Since most of the carbon steel mill products are at present not exportable to China from Free World countries, the potential Chinese demand is difficult to weigh. Steel purchases have had a high priority from Soviet countries, and the substantial diversions from European countries indicate an unsatisfied demand and an interest in procurement from Western countries. An import interest in Free World steel is also indicated in the reports of trade delegations from France, United Kingdom and Japan.

SECRET

- 35 -

SECRETSTEEL SEMIMANUFACTURES
(STEEL MILL PRODUCTS) Continued

The U.K. delegation reports noted Chinese requirements in tinsplate, steel plate and tubes. There is also evidence of British prime tinsplate being smuggled via Hong Kong to China. It is believed that imports from Free World countries, including the United States, would reach substantial proportions with the relaxation of controls. Among the factors which will determine the development of any U.S. market in China will be the availability of credit, competitive prices and quality, promotional effort and payments arrangements.

It is probably in this single category of U.S. industrial goods that the largest export potential to China could be considered. In many of these items, United States suppliers would face stiff competition from other Free World suppliers. However, the United States could be expected to recover if not surpass the historical record of exports to China in prime tinsplate, and tinsplate and blackplate waste and secondaries in which the United States was a major historical supplier and in which an interest in U.S. origin plates of this kind continues to be indicated. It is not unreasonable to expect that the extent of procurement of steel products from Free World countries during 1953 which reached about \$70 million may reflect the annual import requirements from all Free World sources in the near future. It is difficult to anticipate a possible annual export of U.S. steel products to China in excess of \$10 million for the next two years, chiefly in view of extremely aggressive competition to be encountered from steel producers in the United Kingdom, West Germany, Belgium and Japan, and the factor of only a moderate interest generally shown by U.S. suppliers. While merchant exporters might be expected to show more interest in seeking markets in China, the expected Chinese special trading terms and attitudes would generally rule out any except direct sales by U.S. suppliers.

SECRET

- 36 -

SECRET

STEEL MANUFACTURES

I. Control Coverage

Hand tools make up the bulk of this category in which there may be an import procurement interest. Practically none of the hand tools are rated internationally.

II. China Procurement Interest

The traditional dependence of the Chinese economy, with its low level of mechanization and vast manpower resources, upon hand tools is well known. China's emphasis upon the introduction of improved farm tools to advance agricultural production will continue to require hand tools in far greater volume than can be produced locally. There is at present a known demand in China for imports of all types of hand tools, and exchange is generously authorized for such imports. Tools in most popular demand are saws, saw blades, screwdrivers, files, chisels, hammers, and drills.

III. Trade Pattern

U.S. exports of steel manufactures (largely hand tools) during 1948 amounted to almost \$1.8 millions. Exports from Free World countries, ex-United States, during 1953 amounted to almost \$4.4 millions. There is evidence of Chinese procurement of tools of American origin via diversion through third countries.

IV. Potential U.S. Market

There is reason to believe that China will procure these items in greater volume from Free World sources during the next two years than during 1953 when imports amounted to about \$4.4 million. Many items in this line of U.S. origin are known to be in demand in China, particularly those which have become popular in China in the past. In many of these lines, price competition is a limited factor, with quality, adaptability and reputation often scoring sales. It could be estimated that total imports from Free World countries may reach \$7 million with the U.S. share about one half, or \$3.5 million, on an annual basis.

SECRET

- 37 -

SECRET

ELECTRICAL MACHINERY, APPARATUS & APPLIANCES

I. Control Coverage

Most of the items have important industrial uses, have high strategic ratings and are not considered potential exports to China. Items which might be considered for export to China are (1) those rated below II-III, comprising the non-specialized types of radio transmitters and receivers and parts; telecommunication cables and non-specialized telegraphic instruments including components; and (2) the unrated items which include domestic appliances; small lifts and escalators; air conditioners of limited capacity; fluorescent lighting equipment; miscellaneous domestic appliances including refrigerators and fans; domestic telephone equipment; domestic radio receivers and parts including tubes. This latter category may now be exported to China by Free World countries, ex-United States.

II. China Procurement Interest

The 1953 Chinese investment plans show that telecommunications services are regarded as a vital element in the industrialization program. Domestic production facilities and manpower for the operation of services are limited and chief reliance for technical equipment and training has been on the USSR which has made some available to an unknown extent. Expansion in this field has, however, been retarded by difficulties in importing necessary equipment and apparatus.

The principal Chinese procurement interest lies in those important items which will presumably continue to be embargoed for shipment to China by the Free World. It is in this field where China can be expected to grant high priorities for import; and these requirements will be expected to come from Soviet countries.

There is evidence that China is currently buying some of the unrated items as well as those rated below II-III. It is likely that her interest in imports of these items from the Free World will continue, but will probably not be greatly expended inasmuch as they are chiefly consumer-type goods.

III. Trade Pattern

U.S. exports to China in 1948 amounted to \$5.6 millions. Free World, ex-United States, sales to China during 1953 are recorded at over \$7.3 millions.

(Continued)

SECRET

SECRET

- 38 -

ELECTRICAL MACHINERY, APPARATUS & APPLIANCES (Continued)

IV. Potential U.S. Market

Among the factors which will determine the development of any market in China for U.S. products in this category are availability of credit, competition price and quality-wise, promotional efforts, and payments arrangements.

The extent of importation into China of items in this category from Free World areas, which amounted to \$7.3^{million} during 1953, will probably not be greatly exceeded in the near future. It can be expected that some of these items will be sought in the United States, particularly refrigerators, lighting fixtures, air conditioners, lifts and domestic appliances. Annual U.S. exports to China during the next two years would probably not exceed \$3. million.

SECRET

- 39 -

SECRET

TRANSPORT VEHICLES AND EQUIPMENT

I. Control Coverage

- (a) The heavier and more strategic types of vehicles and equipment in which Chinese import procurement could be expected are rated in the IL-III and above range. These include such items as floating docks, tankers, merchant vessels, ice-breakers, certain coastal and fishing craft, turbine locomotives and diesel locomotives, and front and rear drive automotive vehicles.
- (b) Items rated on the China Special List below the IL-III level include small watercraft (fishing vessels), motor vehicles including tractors, trailers and motorcycles and railway rolling stock of limited size and capacity.
- (c) A rather small range of unrated items includes passenger autos of 6-passenger capacity, motor scooters, tricycles under one-half ton capacity. These are now exportable by Free World countries, ex-United States, to China.

II. China Procurement Interest

China's main import interest lies in the higher-rated items. Imports in this range of goods are believed to be taking place from Soviet bloc countries, particularly railway rolling stock, trucks and buses. China's economic planning includes transportation development which will continue to require substantial transport equipment. By the end of 1957, China expects to undertake integrated production of heavy equipment including locomotives and marine engines; but before that date, China will have to rely upon imports for most of her requirements in transport equipment.

Transport equipment of Western origin which was transshipped via Soviet ports amounted to 200 tons in 1953. Seaborne imports from the Soviet bloc countries in 1953 amounted to about 30,500 tons. Soviet origin transport equipment included auto vehicles in large numbers. Some of the items rated below IL-III would probably be sought from Free World areas. The interest in such imports would probably be limited by exchange priorities for strategic items. Only a small volume of the unrated items are being purchased from Free World sources.

III. Trade Pattern

Free World, ex-United States, exports to China during 1953 amounted to less than \$.5 million. U.S. exports to China during 1948 amounted to \$8.3 millions; but this figure consisted largely of items above the IL-III category.

SECRET

- 40 -

SECRET

TRANSPORT VEHICLES AND EQUIPMENT (Continued).

IV. Potential U.S. Market

Some purchases of auto vehicles and parts from the United States could be expected. Although these items are at present available from the U.K. and other European countries, there is no indication of any substantial procurement in these countries, such limited buying reflecting China's policy of emphasis on industrial goods. A trade agreement with Italy includes plans for procuring Italian motorscooters and motor bicycles. Despite the special appeal which might be shown by the Chinese for the American motor car, it is difficult to assume that there would be more than a moderate demand. Among the factors which will determine the development of any market in China for U.S. transport items are availability of credit, competitive prices and quality, promotional effort and payments arrangements.

As a purely arbitrary figure, related somewhat to the picture of very limited imports from Free World countries during 1953, the annual sale of as much as \$1 million of these goods by the United States to China for the next two years would seem to be extremely optimistic.

SECRET

- 41 -

SECRET

MACHINERY (EXCEPT ELECTRICAL)

I. Control Coverage

General categories and their ratings are as follows:

A. Power Generating Machinery

Most of the items in this classification are the heavier and highly strategic items which are rated IL-III and higher. Rated items below IL-III include the low strategic value types of welding equipment and wires, small internal combustion engines, and small power generating and transmission plants. Unrated items in this category: None.

B. Agricultural Machinery and Implements.

These are generally unrated.

C. Tractors

These are generally unrated in the lower power brackets. 4-wheel, 100 brake h.p. or over are rated IL-I.

D. Office Machinery
Generally unrated.

E. Metalworking Machinery

Generally rated, except machine tools designed for making civilian hardware.

F. Mining, Construction and Industrial

The more strategic items are generally rated, with the bulk falling within IL-I, II & III, and therefore not considered for export to China. Items below IL-III include certain limited-scope mining machinery; portable power tools designed for metal working, mining and transportation servicing; jacks of 10-ton capacity and over and materials lifting equipment (i.e., fork-lift trucks); metal spraying equipment; small, self-propelled road rollers; small bulldozers; small excavators including power shovels; and certain foundry plants. Many unrated items such as light builder's equipment; low pressure compressors, cement making machinery; concrete mixers; woodworking machine tools; tile and pottery making machinery; textile machinery excluding synthetic fiber; soap making machinery; sugar making machinery and many other food making and processing types.

SECRET

SECRET

G. Bearings

All rated.

II. China Procurement Interest

Procurement interest ranges practically over the entire field of machinery. Among the machinery, most of it rated, believed to be currently procured in the Soviet areas are mining machinery; trucks; some tractors; textile machinery (unrated) and agricultural machinery (unrated).

Free World, ex-United States, exports to China during 1953 in the several categories of machinery are reported as follows:

Power generating- - - - -	\$1.0 millions
Agricultural- - - - -	nil
Tractors- - - - -	nil
Office machinery- - - - -	2.3
Metalworking machinery- - - - -	1.3
Mining, construction, indust. - - - - -	7.5
Bearings- - - - -	nil
Other- - - - -	0.6
Total	\$12.8 millions

The Chinese are heavily dependent upon imports of capital goods. While their investment program through 1957 is designed to develop local production, in order to achieve this China will need to import industrial machinery and transportation equipment, and most of this will have to come from the Soviet bloc. By the end of 1957, an integrated production program will probably have been started in such heavy industrial equipment as trucks, tractors, locomotives, and marine engines. China appears to be satisfied with her own production of textile machinery and equipment for the present. In addition to value of Western shipments of machinery items to China in 1953, Western transshipment via Soviet bloc is estimated at about 7,000 tons and procurement in Soviet bloc countries at about 38,100 tons.

Interest in procurement from Western countries is reported by trade delegations recently visiting China from United Kingdom, France and Japan.

III. Trade Pattern

(See item II)

SECRET

- 43 -

SECRET

IV. Potential U.S. Market

Some demand for United States nonstrategic machinery and equipment may be expected. Among the factors which will determine the development of any market in China for U.S. machinery are availability of credit, competitive prices and quality, promotional effort and payments arrangements. An example of the kind of Western competition likely to be faced by American exporters is a U.K. business offer to supply China with British textile machinery under a three-year payment plan with a guarantee that if superiority of British equipment is not proven payments will be cancelled.

The level of Free World exports to China in these items which reached \$12.8 during 1953 will probably be exceeded in the immediate future. It is this line of goods which China needs to advance her industrialization program and which are usually given the highest priority in procurement from external sources. While no imports of agricultural tractors and agricultural implements from Free World countries are indicated during 1953, the procurement of these items from Free World areas could be expected as the farm collectivization program becomes more advanced. It may not be too optimistic to estimate that annual exports from the United States for the next two years could reach \$5 million.

SECRET

- 44 -

SECRET

CHEMICALS -- Medicinals & Pharmaceuticals

I. Control Coverage

None of these items are on international embargo lists and may be freely exported to China by Free World countries, ex-United States.

II. China Procurement Interest

While procurement interest is indicated in almost the entire range, special emphasis has been shown in sulphas, antibiotics, vitamins and anti-malarials. Faced with exchange limitations, China has permitted imports of a large volume of these and other pharmaceutical items. Large shipments of wonder-drugs have been made through intermediate merchants in Hong Kong. Free World exports to China during 1953 amounted to \$35.2 millions. Some imports of Soviet bloc pharmaceuticals was made during 1954. The recency of the development of wonder-drugs renders earlier trade data unrepresentative. United States shipments to China of medicinals amounted to \$3.2 million in 1948.

III. Trade Pattern

(See Item II)

IV. Potential U.S. Market

Future procurement interest in China for substantial quantities has been indicated by trade missions from U.K., France and Japan. The heavy concentration of effort in procuring many U.S. pharmaceuticals for illegal diversion to China through third countries is indicative of a demand for these items of U.S. origin. It is quite likely that this interest will continue, and purchases at some level could be expected. Among the factors which will determine the development of any market in China for U.S. products in this category are availability of credit, competition price and quality-wise, promotional efforts, and payments arrangements.

It is quite possible that the level of Free World exports of these items to China, which amounted to \$35.2 during 1953, will be exceeded somewhat during the next two years. Although the shipment to China of these items were unrestricted from Free World areas (ex-United States), and they were in ample supply, it is indicated from attempts at diversion of U.S.-origin items, particularly wonder drugs, and vitamins, that there is a demand for U.S.-origin drugs which would probably replace present procurement from other Free World countries. It would be reasonable to estimate that annual sales of these items during the next two years might be as high as \$10 million.

SECRET

- 45 -

SECRET

CHEMICALS — Fertilizers

I. Control Coverage

Free World, ex-United States, may ship freely to China.

II. China Procurement Interest

The increase of agricultural output is an integral part of China's economic planning, with the use of additional fertilizers as one of the more important factors in the achievement of this objective. An increased local production is planned which would see an output of about 270,000 tons of ammonium sulphate by 1957. Use of fertilizers beyond this can be expected provided it is available. The best import availability prospects appear to be North Korea, Japan and Western countries. If the annual rate of consumption reaches 1 million tons by 1955, imports from Western countries could reach 200-300,000 tons.

III. Trade Pattern

U.S. exports to China during 1948 amounted to slightly more than \$1 million. Free World exports during 1953 are known to have taken place in substantial amounts, although the full quantity is not known. Large shipments are recorded from Hong Kong, originating mostly in Belgium, Netherlands and U.K., and amounting to over \$8.8 millions. Imports from USSR have been made as late as first quarter 1954.

IV. Potential U.S. Market

China's future import procurement plans include Western countries. Import interest is reported by trade delegations from United Kingdom, France and Japan. A U.K. mission visiting China at the end of 1954 reports final purchase plans for 60,000 tons of ammonium sulphate. Procurement will also probably be made in USSR. Procurement in the United States could also be expected provided transactions could be arranged. Among the factors which will determine the development of any market in China for U.S. fertilizers will be the availability of credit, competitive prices and quality, promotional effort and payments arrangements. Estimated minimum annual sales to China of about \$5 million and a maximum of about \$7.5 million could probably be anticipated.

SECRET

- 46 -

SECRET

CHEMICALS — Dyestuffs

I. Control Coverage

Except for a small number of items on the China Special List (rated below II-III) most dyestuffs are freely exportable from Free World producing countries to China.

II. China Procurement Interest

Although China's textile industry (heavy consumer of dyestuffs) has not greatly exceeded prewar output, some expansion can be expected. Domestic production of dyestuffs is inadequate, and procurement in Free World areas, ex-United States, indicates substantial import requirements. It is probable that this situation will continue for some time to come. Unrestricted availability in Free World areas and the established reputation of U. K. and German dyes would indicate a continued procurement in these and other Free World areas, although some imports from Soviet areas is indicated.

III. Trade Pattern

China's purchases of coal-tar dyestuffs, natural indigo and tanning extracts during 1953 from Free World areas, ex-United States, amounted to \$19.2 millions. United States exports to China during 1948 amounted to about \$4.5 millions.

IV. Potential U.S. Market

Since procurement from Free World, ex-United States, sources has been unrestricted, it can be assumed that China's current purchasing level is related to her needs and her ability to finance imports. Considerable potential procurement in Free World producing areas has been indicated by trade delegations to China from U.K., France and Japan. It is probable that a market for some China products in the United States would result in the procurement of some U.S. dyestuffs. Among the factors which will determine the development of any market in China for U.S. goods in this category are availability of credits, competition price and quality-wise, promotional efforts and payments arrangements.

It is possible that imports into China from Free World countries in the immediate future will not greatly exceed the amount imported during 1953 which was \$19.2 million. The United States could hope to break into this trade to an extent, but probably not much more than U.S. exports during 1948 which amounted to \$4.5 million. Estimated annual U.S. exports to China during the next two years might reach about \$5 million.

SECRET

- 47 -

SECRET

CHEMICALS -- Other

I. Control Coverage

The important industrial chemicals such as carbon black, chromium compounds, glycols, glycerine, methyl chemicals, nitric acid, acetic acid, sulphuric acid are on international embargo lists.

Items which might be considered for export to China are limited to (1) items rated below II-III, which include cresylic acids, paraffin wax, some rubber solutions; and (2) items now freely exportable by Free World producing countries, ex-United States, which are unrated and include alkalis (sodium hydrosulphite, silicate, carbonate, hydroxide, nitrate and bicarbonate) insecticides and fungicides, detergents, solvents, alcohols and fatty alcohols (i.e., butyl) titanium dioxide, zinc oxide, boric acid, paints and materials, and many chemical specialties.

II. China Procurement Interest

China's industrial planning places a high priority on the production expansion of certain industrial chemicals such as sulphuric acid, nitric acid, caustic soda, synthetic ammonia, calcium carbide, and coal tar chemicals. Achievement will depend upon acquisition of technical equipment and personnel for which Soviet countries are the only source. Current procurement interest is known to include many items which will not be exportable by Free World countries to China. However, interest is also known for items rated below II-III, including paraffin wax, sodium peroxide, and a considerable range of other chemical items exportable by the Free World, ex-United States, countries to China. These include:

Stearic acid	Lead acetate
Polystyrenes	Titanium dioxide
Potassium iodide	Synthetic resins
Sodium salicylate	Ammonium nitrate
Sodium hydrosulphite	Boric acid
Sodium bicarbonate	Copper oxide
Sodium bromide	Formic acid
Sodium nitrate	Wintergreen oil
Sodium hydroxide	

III. Trade Pattern

Exports during 1953 to China from producing Free World countries, ex-United States, of unrated chemical products, exclusive of dyestuffs, fertilizers and pharmaceuticals, amounted to about \$12.8 millions.

SECRET

- 48 -

SECRET

CHEMICALS — Other (Continued)

IV. Potential U.S. Market

Chemicals in lines exportable by Free World producing countries to China are being sought by the Chinese from many of the Free World countries. Import interest was ascertained by trade delegations from U.K., France and Japan. Import transactions are reported to have been concluded with the British late in 1954. Imports are reported to be made from USSR, and although items are not identified, it is probable that emphasis is on items not available from Western countries. Some demand for U.S. chemicals (in addition to fertilizers, etc.) can be expected. Among the factors which will determine the development of any market in China for U.S. products in this category are availability of credit, competitive price and quality, promotional effort and payments arrangements.

Total imports into China from Free World countries during the next two years may surpass 1953 imports of \$12.8 million. It appears to be reasonable to expect that United States annual exports to China of these items during the next two years might reach \$5 million.

SECRET

- 49 -

SECRET

PROFESSIONAL AND SCIENTIFIC INSTRUMENTS

I. Control Coverage

The bulk of these items are of a highly strategic character in the upper range of internationally-rated items. A smaller selection rated on the China Special List below II-III includes electrocardiographs; telescopes and binoculars; cartograph instruments; low range measuring and testing instruments; many surveying and optical instruments; and certain electronic heating instruments. Unrated items in this field are within a limited range only and include such items as certain X-ray equipment; low capacity theodolites; and electrical measuring and testing instruments.

II. China Procurement Interest

There is evidence of an import interest from Western areas of electrical measuring instruments, theodolites, hardness testers and medical apparatus, including both the internationally-rated and unrated types. Attempts are being made to procure the strategic types from Free World countries via third country diversion.

III. Trade Pattern

United States exports of scientific and professional equipment to China during 1948 amounted to almost \$2 millions.

Imports of "instruments", probably mostly of the rated types, in 1953 from Soviet bloc countries, are estimated at about 1,000 tons valued at about \$5 millions. About 100 tons of this amount is estimated to have been diverted from Western Europe. Recorded imports of unrated types from Free World countries during 1953 amounted to \$9.4 millions. Imports from Western Germany amounted to about \$3.3 millions, including testing apparatus; geodetic instruments; precision scales; mathematical instruments; measuring and testing instruments; physical and chemical instruments; and scientific, optical and precision instruments.

IV. Potential U. S. Market

In addition to efforts at diversion of rated goods of Western origin, a continued interest can be expected by China in the procurement in Free World areas, including the United States, of these items in the unrated field. Chinese import interest has recently been reported by trade delegations from United Kingdom, Japan, Italy, and France. Among the factors which would determine the development of any market in China for United States products of this type are availability of credit, competitive prices and quality, promotional effort and payments arrangements.

Imports into China from Free World areas will probably be slightly higher in the immediate future than imports during 1953 which were recorded at \$9.4 million (an incomplete figure). Annual imports from the United States during the next two years might be expected to amount to \$4 million.

- 50 -

SECRET

PHOTOGRAPHIC EQUIPMENT & SUPPLIES AND WATCHES

I. Control Coverage

Unrated internationally, except for high speed movie cameras and high speed, flash, still cameras.

II. China Procurement Interest

Since there is little restriction on availability in Free World countries, ex-United States, current imports from these sources may be indicative of China's permitted import requirements.

III. Trade Pattern

During 1953, Free World supplied China with watches and clocks valued at \$22.3 million, and photographic goods valued at under \$1 million. Watches were chiefly of Swiss origin, with a substantial amount from Western Germany. Photographic equipment and supplies, mostly film and paper, came chiefly from the United Kingdom, Belgium and Western Germany.

United States exports to China in 1948 of all photographic goods amounted to \$1.1 millions.

IV. Potential U.S. Market

China import interest appears to lie chiefly in watches, with Switzerland and Western Germany well established as suppliers. In photographic goods, import needs are mainly for film and paper. Chinese import interest in photo materials were indicated recently to a trade mission from Japan.

A demand for more than a token quantity of U.S. watches is not likely. U.S. film and paper may have an attraction to the Chinese quality-wise, but the following factors will determine the development of any U.S. market in China for these goods: availability of credit, competitive prices, promotional effort and payments arrangements.

Annual U.S. exports to China of clocks; watches; photographic paper, equipment and supplies during the next two years could hardly be expected to exceed \$1 million.

SECRET

- 51 -

SECRET

PETROLEUM PRODUCTS

Virtually the entire range of petroleum products are rated and embargoed for export to China by Free World countries. Principal procurement interest in China is currently in kerosene, gasoline, diesel fuel and lubricating oils and greases. None of these items bear a rating below II-III and therefore could not be considered for shipment to China under a relaxation permitting shipments only of items below this level.

SECRET

- 52 -

SECRET

METAL ORES & SCRAP

All items in this classification are rated and subject to embargo shipments to China by Free World countries. None of these items bear a rating below II-III and therefore could not be considered for shipment to China under a relaxation of controls which would permit shipments only of goods rated below this level.

SECRET

- 53 -

SECRET

PAST PATTERN AND SIGNIFICANCE OF U. S. IMPORTS FROM CHINA

Imports into the United States from China during 1937 amounted to \$99.4 million out of total imports into this country of \$3 billion, or 3.3 percent. During 1948, a representative post-war and pre-communist takeover year, United States imports from China were valued at \$117.4 million out of total imports of \$7 billion, or 1.7 percent.

A small number of Chinese products made up the major part of the United States imports from China in 1948. Imports of hog bristles amounting to \$22.1 million and tung oil amounting to \$26.2 million together accounted for over 40 percent of total imports from China. Four additional imports, hides and fur skins valued at \$11.6 million, wool and carpets at \$8.4 million, embroideries at \$5.2 million and tungsten at \$4.1 million accounted for another 25 percent of the total.

The principal items making up the balance of the United States imports from China in 1948 were ramie fibers, hair and manufactures, tin, antimony, eggs, feathers and spices.

SECRET

SECRET

U. S. Imports from World and from China, 1937 and 1948,
Total Value and by Principal Commodity Groups and Items,
Together with Percentages Imported from China
(Thousands U. S. Dollars)

Principal Groups & Items	From All Countries		From China		% of U. S.	
	Value		Value		Total	Imports
	1937	1948	1937	1948	1937	1948
Total Imports for Cons.	3,009,852	7,078,066	99,428	117,364	3.3	1.7
Animal prod., edible..	114,494	295,188	4,192	1,716	3.7	0.6
Sausage casings.....	11,514	12,353	1,664	377	14.5	3.1
Eggs, egg yolks and albumen.....	2,373	475	2,180	351	91.4	73.9
Animal prod., inedible.	222,392	393,375	27,138	37,933	12.2	9.6
Hides and skins, raw, mostly goat & kid.	71,058	107,762	5,514	2,500	7.8	2.3
Furs & fur mfgs....	86,178	164,480	13,757	9,107	16.0	5.5
Kolinski.....	1,502	3,124	785	1,049	52.3	33.6
Lamb, kid, sheep & goat.....	28,898	77,888	4,575	3,850	15.8	4.9
Bristles.....	9,955	22,956	6,737	22,135	67.7	96.4
Feathers.....	3,247	7,664	1,064	3,922	32.8	51.2
Veg. food prods., & beverages.....	738,873	1,707,589	6,316	4,569	0.9	0.3
Grains & prepara..	30,221	28,873	146	350	0.5	1.2
Veg. & prepara....	25,175	60,237	438	1,078	1.7	1.8
Oilseeds.....	63,326	150,691	591	313	0.9	0.2
Veg. oils & fats, edible.....	29,998	19,796	3,415	508	11.4	2.6
Fruits & prepara..	47,428	101,784	70	847	0.1	0.8
Tea.....	21,366	45,075	828	769	3.9	1.7
Spices.....	11,470	30,871	417	723	3.6	2.3
Cassia & cassia, unground	720	1,059	315	592	43.8	55.9
Veg. prod., inedible except fibers & wood.....	487,485	780,980	21,872	28,535	4.5	3.7
Tung oil.....	20,100	27,052	18,087	26,275	90.0	97.1
Veg. dyeing & tanning mat'ls.	7,828	26,623	139	139	1.8	5.2

SECRET

- 55 -

SECRET

Textiles.....	476,928	863,013	29,605	26,325	6.2	3.1
Cotton, semi-manuf....	4,090	7,532	712	821	17.4	10.9
Cotton manufactures...	56,910	45,380	2,519	2,100	4.4	5.9
Flax, hemp, ramie fibers & mfrs.....	35,427	33,840	5,609	6,121	15.8	18.1
Handkerchs, veg.... fiber except cot.	4,791	7,614	3,333	5,196	70.0	68.2
Wool, unmanufactured..	96,345	307,673	7,756	6,031	8.1	1.9
Wool, manufactures	24,463	54,820	891	2,496	3.6	4.5
Carpets & carpeting, mats, etc., wool..	5,591	20,204	819	2,475	14.1	12.3
Hair & hair manuf.....	5,589	10,577	2,109	2,837	37.9	26.8
Silks, raw.....	106,585	15,406	5,068	393	4.8	2.6
Silk manufactures.....	11,088	24,393	597	469	5.4	1.9
Wood and paper.....	306,469	987,445	390	1,934	0.1	0.2
Wood & manufactures...	42,421	67,599	271	1,306	0.6	2.0
Metals and manufactures.	280,780	875,242	7,866	10,628	2.8	1.2
Tungsten ore & con- centrates.....	3,260	8,716	2,225	4,102	70.0	47.1
Tin bars, blocks, pigs etc.....	104,285	103,982	5,127	3,199	4.9	3.7
Brass & bronze mfrs...	643	20,778	118	278	18.4	1.3
Antimony, ore, liq. & metal content.....	2,105	6,652	201	2,037	9.5	30.6
Chemicals.....	102,578	111,442	819	2,400	0.8	2.2
Firecrackers.....	779	2,049	596	1,809	76.5	88.3
Other.....	279,853	1,063,792	1,230	3,320	0.5	0.3

SECRET

- 56 -

SECRET

TUNG OIL

I. Chinese Availability

Tung oil (also known as wood oil or China wood oil) production in China was estimated to have reached 88,000 metric tons in 1952. The production target for 1957 is set at 100,000 metric tons. Production prior to the communist takeover of China amounted to 105,000 and 115,000 metric tons during 1947 and 1948 respectively.

China placed considerable emphasis upon tung oil exports after World War II, and it became the most important single source for foreign exchange. At present, tung oil is included in China's plan to expand agricultural production for the purpose of earning foreign exchange.

The present percentage of production used locally as compared with availability for export is not known, but immediately after World War II when domestic use included temporary uses as a substitute for other short supply materials (instead of kerosene for lighting and fuel and for soap making) domestic consumption was estimated at about 40 percent of production.

In normal times, prior to the communist takeover, China sent about 70 percent of her tung oil exports to the United States, with European markets absorbing up to 20 percent.

In 1948, U.S. production of tung oil amounted to 16.8 million pounds, while imports in that year reached 133 million pounds, practically all from China. It should also be noted that during 1953, China in effect "dumped" tung oil in the European market by her practice of forcing the export of tung oil via barter arrangements. As a consequence, European merchants found themselves holding excessive quantities which they then offered in world markets, depressing prices considerably.

II. Trade Pattern

Free World tung oil imports from China during 1953 amounted to about \$11 million, with country participation as follows:

Hong Kong - - - - -	\$5.8 million
United Kingdom - - -	1.5
Western Germany - - -	1.8
Japan - - - - -	1.3
Australia - - - - -	.3
Switzerland - - - - -	.1

Shipments to Hong Kong were largely re-exported. During 1953, Hong Kong re-exports to principal destinations were as follows:

SECRET

- 57 -

SECRET

United Kingdom	- - -	\$2.5 million
Japan	- - - - -	1.4
Australia	- - - - -	.7
Canada	- - - - -	.3

During 1937, United States imports from China were 159 million pounds and during 1948, they were 130 million pounds.

Seaborne shipments from China during 1953 to Soviet bloc countries were reported at 6.6 million pounds.

III. Potential Market in U.S.

Consumption of tung oil in the United States has varied materially from year to year. During the early postwar period when supplies were ample and the price low in relation to linseed oil, consumption exceeded 100 million pounds annually. More recently, competing oils have become available at lower prices, and with the appearance in increased volume of synthetic resin and rubber emulsion paints, the use of tung oil is not expected to increase beyond the 50-60 million pound range.

During the current crop year, it is expected that consumption will reach about 50 million pounds. Domestic production is estimated at 15 million pounds, a reduction over average annual production by reason of frost damage. Estimated imports, virtually all from Argentina and Paraguay, will amount to 25 million pounds. The deficit in consumption requirements will be met by a reduction of 10 million pounds in the 34 million pound stocks held by the Commodity Credit Corporation.

It should be noted that tung oil and tung nuts may now be imported free of duty. However, the President is now empowered to ask the United States Tariff Commission to determine whether future imports would interfere with the Department of Agriculture price-support program or reduce domestic production and therefore justify import limitations. The Commodity Stabilization Service required as of May 26, 1955 that the weekly offering of tung oil for sale under competitive bids be increased from 14 to 35 cars. This change in policy was made in an effort to stimulate the purchase of surplus stocks for export.

production Foreseeable consumption requirements in this country can be met from domestic imports plus about 25 million pounds of imports from foreign sources. At present, Argentina and Paraguay are in a position to supply most of the United States import requirements. These two countries have recently undertaken to restrict exports of tung oil and tung nuts in oil equivalent to a total of 24.4 million pounds. The China oil is therefore not needed.

With the removal of import restrictions on Chinese oil, however, it could be expected that China would offer for export to the United States a quantity of 30 million pounds annually, valued at about \$6.6 million, based on a price of

SECRET

- 58 -

SECRET

22 cents per pound. Obviously, such a development might bring about a careful examination of tung oil imports from the standpoint of our present price-support program as well as feasibility of continued procurement of import requirements on a long-term basis. This country might have to consider whether it would be in the best interest to avoid discouragement of supplies from friendly and more cooperative areas in favor of a potentially hostile and undependable source.

SECRET

- 59 -

SECRET

HOG BRISTLES

I. Chinese Availability

Current annual Chinese bristles production, a by-product of hog production, is estimated at about 19 million pounds. It is likely that China has the potential to export bristles in a quantity to match previous export records. Total pre-communist takeover exports from China amounted to 9.8 million pounds worth \$21.4 million in 1947 and 10.1 million pounds worth \$16.7 million in 1948.

II. Trade Pattern

Free World imports of bristles from China during 1953 amounted to 8.1 million pounds worth \$33 million. The principal importers of Chinese bristles were Japan and France. Smaller imports are recorded for Netherlands, Italy, Belgium, and Switzerland.

A February 1955 issue of an unofficial Hong Kong economic journal reporting on Chinese production states that only odd-assortment bristles are being offered in Hong Kong. Bristles in sets of 55 cases containing all assortments are offered by China directly to overseas export markets bypassing Hong Kong.

Prior to the U.S. prohibition against the importation of Chinese bristles over 80 percent of bristles imports were from China. The largest quantity of Chinese bristles imported into the United States was 7.1 million pounds imported in 1948. In 1950, when the price advanced, U.S. imports amounted to 2.8 million pounds worth \$27.4 million. Treasury Department initially excepted bristles from the embargo on imports from China adopted December 1950, at the special request of the Department of Defense, but has banned licensing of bristle imports from China since February 1952.

United States imports of Chinese bristles in recent years were as follows in million pounds and million dollars:

	Quantity	Value
1937	3.7	6.7
1948	7.1	22.1
1950	2.8	27.4
1951	1.3	13.3
1952	3.3	17.2

Shipments of Chinese bristles to Soviet bloc countries have been reported; but the volume is not known.

III. Potential Market in U.S.

Bristles are used chiefly in the manufacture of brushes of all kinds. The American brush industry has indicated an overwhelming preference for Chinese bristles which were in the past available in uniform dressing and in a wide range

SECRET

- 60 -

SECRET

of assortment. The industry insists further that bristles from non-Chinese sources are generally less satisfactory, lacking the desirable characteristics found in the Chinese bristles.

Stocks of Chinese bristles held by U.S. industry, acquired prior to the embargo, are practically exhausted. Although the use of nylon as substitute material for brush making has become widespread, undoubtedly encouraged by the prohibition against Chinese bristles, and the use of paint spraying equipment has become popular, a substantial portion of the market continues to prefer bristle brushes of acceptable quality even at a price differential of three to one in favor of nylon brushes.

While the resistance by the trade to the substitution of nylon may not be warranted on technical grounds, the fact remains that preference has been developed for good bristle brushes and there is a strong likelihood that Chinese hog bristles would again find favor in the American market, probably in substantial volume. This estimate is buttressed by the fact that foreign brushes manufactured of Chinese bristles were building up substantial markets in the U.S. since our bristle embargo to such a point that the Treasury Department, after strong American industry pressure, finally imposed an embargo on the importation of all brushes made abroad of Chinese bristles.

The United States normally imports about 6.5 million pounds of hog bristles annually valued at about \$21 million. Of this total, China formerly supplied about 85 percent or 5.5 million pounds valued at \$16.5 million.

There might prove to be a demand in the United States for about 8 million pounds of Chinese hog bristles even at approximately \$5 per pound for at least two years. At the end of this period, inventories would have been replenished and the demand would probably decline to about 6.5 million pounds with a corresponding price decrease.

It should be pointed out that if Chinese bristles were admitted into the United States, it is felt that the current program of conversion to synthetics would probably be abandoned and that this might have serious effects in the event of a later emergency. It is held that if Chinese bristles are kept off the American market for another year, or preferably two, the acceptance of synthetics which are being constantly improved would be so general that Chinese bristles would not be a major factor as a required industrial product.

- 61 -

SECRET

RAW SILK

I. Chinese Availability

Raw silk production in China since World War II has been about one-third of prewar production. Output during 1953 amounted to about 69,500 bales (one bale equals 133-1/3 lbs.), and production plans are for an annual yield of about 82,000 bales through 1957. China is reported to have the capacity to increase production substantially providing internal and export requirements, which were originally reduced by the availability and preference for synthetic fibers, may again be revived. Requirements in Soviet bloc countries are reported to have declined, with the result that China has turned her attention toward the greater domestic utilization of this product as fabrics and clothing.

II. Trade Pattern

Japan had been the principal supplier of silk to the United States when the silk trade flourished, while Chinese silk generally went to European countries. U.S. imports during 1937 were valued at \$5 million or about 5 percent of U.S. imports, and in 1948 they amounted to only \$.4 million or 2.6 percent of total U.S. silk imports.

During 1953, Free World imports of raw silk from China was recorded at about \$13 million, with the bulk moving to France and Switzerland. Soviet bloc countries are reported to have been customers during 1952 for most of China's silk exports, taking about 11,000 bales out of total China exports of 14,500 bales. Soviet bloc requirements during 1953 are reported to have been considerably reduced.

III. Potential Market in U.S.

It is difficult to foresee a substantial market for Chinese silk imports into the United States. This product never counted heavily in imports from China during the days when silk imports were substantial. Now that synthetics have generally replaced silk consumption, the probably limited U.S. requirements would not indicate very important demands for China silk in view of availability from another source and the likelihood that importers would be faced with unfavorable trading terms. In addition, China continues to demand a high price for raw silk in world markets.

It should be noted that, independent of consumer requirements, the United States did provide an exception to its December 1950 ban on the importation of Chinese goods to permit imports of silk waste for the strategic stockpile. In 1951, such imports totalled 387,000 lbs. valued at \$225,000; in 1952 they totalled 295,000 lbs valued at \$315,000. Licensing was suspended in 1952, and no imports were received thereafter. It is possible that strategic requirements for this product may develop again.

China never was a major supplier of cultivated raw silk to the United States. Because of superior quality, packaging, and grading, the Japanese product is

SECRET

- 62 -

SECRET

preferred. There would have to be a very large price differential in favor of Chinese silk to attract much business. It is difficult to see imports exceeding 100,000 lbs. annually valued at about \$400,000.

Tussah silk is currently being used extensively because of style trends in apparel fabrics. How long this demand will continue is uncertain, but a decline is more probable than a further increase.

China is the world's leading source of tussah silk and if the style trend mentioned continues, China imports could amount to about 50,000 lbs. a year or a volume of about \$200,000.

China is also the largest producer of silk waste and noils. These are also in current demand, along with tussah silk, in blends for apparel fabrics. Silk noils and waste are a stockpile item, but further additions to the stockpile are not likely.

The foreseeable market for Chinese noils and waste might be 750,000 lbs. annually valued at about \$1 per pound.

SECRET

- 63 -

SECRET

EMBROIDERIES AND LACES

I. Chinese Availability

Embroideries and lace production has in the past been a significant item in the economically important field of handicraft industries. In an economy generally over-populated and unmechanized, there was ample room for the development of cottage industries which yielded products for the export market and provided a livelihood for millions of persons.

There is a paucity of information on the present status of handicraft production, and with emphasis on industrialization and collectivization, and the discouragement of profit making, it would appear that cottage industries would retrogress, particularly in production for export.

There is, however, an official recognition by the present regime of the economic importance of handicraft production, not alone for domestic needs but for export as well. This is indicated by the organization of cooperatives in order to eliminate private enterprise in this field; and in their programs for training in various kinds of art design for products to be sold in domestic and foreign markets; and in government actions providing credits, improving standards and promoting sales.

II. Trade Pattern

China's total exports of embroideries and laces and exports to the United States prior to the communist takeover are shown below in millions of U. S. dollars:

	Total	To U.S.
1937	11.9	7.2
1938	7.8	4.8
1947	2.0	.8
1948	2.4	1.4

The Japanese occupation and World War II disrupted production, and only slight recovery was indicated by 1948.

United States statistics show imports from China of these items in 1948 amounted to \$6 million. The larger amount reported in U.S. statistics as compared with exports shown by Chinese reports may result from the former reflecting imports via third countries, particularly Hong Kong.

III. Potential Market in U. S.

As in the case of other Chinese hand-made items, such as wool carpets, Chinese embroideries and laces could probably again be marketed in the United States providing they retain the peculiar qualities of pre-communist production. China could be expected to offer this type of merchandise for sale in the United States as an exchange earner. United States imports

SECRET

- 64 -

SECRET

will also depend upon the adaptability of U. S. importers to more difficult Chinese trading terms.

It should be noted that United States imports of embroideries from pre-communist China were often on the basis of original fabrics sent to China by U. S. embroideries merchants where they were subjected to embroidering, appliqueing and other hand detailing. It is not likely that this procedure would again be developed under the present communist regime. Some handkerchief business might develop with China and in addition there might also be some trade in embroideries of completely native origin. Such imports from China on an annual basis during the next two years could readily exceed \$1 million, provided promotional efforts were forthcoming and trading terms were not too difficult.

SECRET

- 65 -

SECRET

CASHMERE

I. Chinese Availability

Cashmere wool, as distinguished from sheeps' wool, also produced in China, is the fine, soft, silky hair of the Cashmere goat raised on the Himalaya slopes of Asia and is obtained by combing the animal instead of shearing. The reputedly finest cashmere is therefore produced in Tibet, China and Outer Mongolia (USSR). India is also a producer of a somewhat comparable cashmere. Iranian cashmere is coarse and generally not competitive with the Himalaya cashmere.

There are no data on the current or recent cashmere production in China, nor is this item mentioned in communist China's official plans for agricultural production as related to financing necessary imports. However, existing data show considerable exports of cashmere to Japan and demand for Chinese cashmere in the United Kingdom and Austria. Also, during 1950, just prior to the effect of the U. S. embargo against imports from China, Chinese cashmere imports came into the United States in significant volume.

Chinese cashmere has traditionally been very popular among U. S. manufacturers of sweaters and scarfs, and currently while Chinese raw cashmere is not procurable, there is an up-surge of imports of cashmere manufactures from Japan, Austria and United Kingdom, which are made from Chinese cashmere. It is reasonable to expect that with the availability of some U.S. products for export to China, the communist Chinese would be able and willing to export cashmere to the United States in order to finance the purchase of essential U. S. products.

II. Trade Pattern

United States imports of Chinese cashmere during the period prior to the effect of the embargo on Chinese imports are as follows:

1948	897,571 pounds
1949	1,063,833
1950	2,019,395

Free World import data for 1953 do not generally show trade in cashmere separately, but include it with groups of similar materials. Japan is known to have imported 1.1 million pounds valued at \$3.1 million during 1953. In addition, offers have recently been reported in the Hong Kong market for sales to the United Kingdom.

III. Potential Market in U. S.

It is reasonable to anticipate a potential market for this product in the United States in the event the embargo is lifted. Although the volume may not be as significant as in some of the other desirable China products,

SECRET

- 66 -

SECRET

it could, however, be considerable. It is even not unlikely that the United States could become the principal market for Chinese cashmere since cashmere manufactures are largely luxury items which have an established appeal in the American market. Annual imports of cashmere from China during the next two years could exceed \$3 million.

SECRET

SECRET

EGGS AND EGG PRODUCTS

I. Chinese Availability

China's plan for expanding agricultural production as a means of financing necessary imports from the Free World as well as from the Bloc includes a target for 1957 for the production of 712,000 metric tons of eggs. Production during 1953 were estimated at 658,000 metric tons. The Chinese communist press reports that during 1953, about 7 percent of domestic egg production was exported. Eggs have been a traditional China export to Western countries; and it is quite probable that China will continue to place emphasis upon both increased production and a greater diversion of production for export.

Chinese eggs and egg products exports comprise the following categories: frozen whole eggs; frozen albumen and yolks, separated; whole egg powder; dried albumen and spray egg yolk; salted boracic liquid yolk, and salted benzoate liquid yolk. The first four categories are packed for export in sealed tins and the latter two classifications are packed for export in wooden barrels.

Authorities have recently established export standards for the various egg products. Future plans for expanded egg production include the development of modern chicken farms to supplement the traditional production on a small scale in practically every country household.

II. Trade Patern

Eggs and egg products imported by Free World countries from China during 1953 amounted to \$30.3 million, or about 7.2 percent of total Free World imports from China. Country participation was as follows:

United Kingdom - - - - -	\$11.1
Hong Kong - - - - -	9.4
Western Germany - - - - -	5.2
France - - - - -	.2
Italy - - - - -	.6

United States imports during 1937 amounted to almost \$2.2 million. During 1948, China egg exports, not fully recovered from war conditions, were lower than pre-World War-II, and imports into the United States amounted only to about \$300,000. Unknown quantities were shipped to the USSR during 1953 via rail.

III. Potential Market in U. S.

Trading arrangements concluded recently by China with foreign trading delegations indicate that exports will be available to Italy, Burma, United

SECRET

- 68 -

SECRET

Kingdom, Japan and France. Some demand in Soviet countries is being met, a West German merchant reporting that egg products would not become available until the end of 1954 due to heavy deliveries to the Soviet bloc.

Chinese egg products were once salable in the United States to bakeries, restaurants and food processors, chiefly on the basis of the price factor. Presumably, if prices are attractive and U. S. domestic production does not reach surplus proportions (the U. S. Government has not purchased surplus eggs under the price support program since 1950), American industrial and institutional users might again find it advantageous to buy Chinese eggs.

U. S. annual imports from China during the next two years could not be expected in any great volume, probably not in excess of \$.5 million.

SECRET

- 69 -

SECRET

WOOL AND CARPETS

I. Chinese Availability

China has traditionally been and continues to be an important wool producer. Output in 1954 has been variously reported at 77.9 million and 115 million pounds. About 70 percent of wool production is carpet wool which possesses the following characteristics: ivory-white color; rich in lustre; highly elastic; very light, soft and pliable; and long fibers ranging from 4 to 5 inches in length.

The production of woollen carpets in China has for a long time been an important industry. In addition to the availability of particularly suitable wool for carpet making, some of the other characteristics of Chinese carpet making are weaving by hand (a hand made carpet, properly made, can last more than 60 years); their beautiful designs which include classical oriental and Chinese art, landscapes, nature subjects, rich and colorful national designs and other subjects; and an effective blending of colors. Present production is reported to emphasize the Tunhuang mural type which reproduces popular national designs.

Chinese official plans for wool and carpet production are not known. It is noted, however, that estimated production of wool has increased in 1954 over 1952, and that the five-year plan includes increased production through 1957.

II. Trade Pattern

China's current exports of wool and wool carpets cannot be fully ascertained. Only small shipments are recorded to free European areas. Trade arrangements with Free World countries do not name these items as potential China exports. Wool is reported to be included as an item of China export to USSR in the 1953 Sino-USSR trade agreement, and large quantities of wool are reported to be moving by rail from China to the USSR. No carpet trade is indicated.

Total Chinese wool exports in 1948 amounted to \$1 million, practically all shipped to the United States. Prior to World War II, in 1937, total wool exports amounted to \$5.7 million with \$3.9 exported to the United States. U.S. statistics show imports of wool from China in 1948 valued at \$5 million. Total wool carpet and rugs exported by China in 1948 were valued at \$1.4 million with \$1.3 shipped to the United States. U.S. trade statistics show imports from China of these items in 1948 valued at \$2.5 million.

III. Potential Market in U.S.

Chinese wool for carpet making and Chinese carpets have in the past found a ready market in the United States in a fairly important volume. This trade has its origin after World War I when Persian and Turkish rugs were in short supply. At one time, wool imports were admitted into the United States subject to a refund of tariff provided the wool was used for making floor coverings.

SECRET

- 70 -

SECRET

There is reason to feel that Chinese carpet wool and some carpets would again find a market in the United States provided all artificial barriers could be overcome. The reputation of the Chinese carpet for its artistic designs and for Chinese carpet wool as a superior carpet material would undoubtedly help to create some demand in the United States.

Artificial obstacles to a resumption of this trade are unknown factors. It cannot be predicted, for example, whether American importers would be able to meet Chinese trading terms, nor is it possible to predict what efforts the Chinese would make to redevelop the U.S. market.

There are, however, additional factors. Wool as a carpet fiber has declined greatly in importance in the United States. Moreover, in recent years, purchases of carpet wool have tended to shift to Argentina, India, Pakistan, and other areas. It is felt that in order to compete with other U.S. suppliers, China carpet wool would have to be offered at a lower price. Even if a market could be developed, it would appear that annual U.S. imports from China of \$1 million for the next two years would be the maximum. It is expected that Chinese rugs would not be imported in anything except nominal quantities.

SECRET

- 71 -

SECRET

TUNGSTEN

I. Chinese Availability

China is a major producer of tungsten. Except for a small quantity used locally, the bulk of her production is earmarked for export. Production reached 15,000 metric tons (concentrates, 65% WO₃) during 1952; and the production target for 1957 under the 5-year plan is 20,000 metric tons. Increased production, however, will depend upon the procurement of mining machinery and equipment from Soviet areas.

II. Trade Pattern

United States imports from China in 1948 amounted to \$8.7 million, which was about 47 percent of total imports from all sources. Except for a few hundred tons used locally, China's production is currently allocated for export to the USSR and Soviet bloc countries under trade agreements reached with these areas. Thus, although there was an exception from the U. S. import ban on Chinese goods in 1951 and 1952, tungsten imports were negligible, amounting to 18,000 lbs. in 1951 valued at \$43,000, and 42,000 lbs. in 1952, valued at \$170,000.

III. Potential Market in U. S.

The United States Government has included tungsten in its stockpile program. Inventory as of the end of 1954 stood at about 80 percent of the long term objective.

The United States production of tungsten, gradually expanded in recent years, reached a total of 6,214 short tons in 1951. Imports for consumption in that year amounted to 3,188 short tons. Total availability in the United States was therefore 9,402 short tons in 1951 as against consumption requirements of almost 12,000 short tons. Known world production during 1951 was estimated at about 50,000 short tons to which China contributed 15,800 short tons, or about 31 percent of total world production.

Reliance by the United States upon imports for a considerable portion of consumption requirements and the fact that China is a major producer accounting for almost one-third of world production suggests the possibility of renewed U. S. procurement interest in Chinese tungsten. However, China availability is particularly uncertain in view of her commitments to the USSR and Soviet bloc countries. In addition, China's trading terms, in the event she were to offer tungsten for export to the United States, could be expected to discourage procurement by U. S. importers. This factor might, however, not be an obstacle to imports in the event purchases were to be considered by the U. S. Government for stockpile purposes.

SECRET

- 72 -

SECRET

Other important factors bearing on the national interest of the United States should also be considered in evaluating the potential procurement of tungsten from China.

After China's tungsten had become unavailable to the Free World countries, other sources of this metal have been developed and expanded. If China decided to make this metal available to the Free World, it would probably be offered at prices under the world market. If this occurred, it could have the effect of driving many tungsten enterprises in the Free World out of business. It should be recalled that the Chinese have developed such a situation in the past and virtually controlled the world sale of tungsten.

Thus, the United States might have to consider whether her best national interest dictated the admission of Chinese tungsten imports which might have the effect of again curtailing Free World production and increasing our dependence for this important metal upon an unpredictable source. Because of this factor and the present Chinese policy of selling tungsten exclusively to the Soviet areas, no potential U. S. procurement estimate is considered feasible.

SECRET

- 73 -

SECRET

HIDES, SKINS and FURS

Introduction

There are two main types of hides and skins covered in this review, one which is primarily used in the production of leather and the other chiefly for fur purposes. Both of these types are then subdivided into sub-groups, the first covering those from domesticated animals and the other from wild animals. For purpose of presentation the type of hides and skins used for leather will be referred to as "Hides and Skins" while the varieties for furs will be hereafter referred to as "Pelts".

I. Chinese Availability and Trade Pattern

a. Leather Hides and Skins

There has been a sharp drop in the number of domesticated animals in China due to two important factors, the first being urgent need for additional food and the second the Communist activity in eliminating large land and flock owners. As a result, availability of hides and skins from domesticated animals is currently sharply below that prevailing in 1948. In 1948, U. S. imports of these types from China totaled \$2.5 million and consisted chiefly of goat, kid, and deer skins and Indian water buffalo hides.

b. Pelts

For the same reasons outlined above, pelts available from domesticated animals are now in much lower supply than prevailed during 1948. This covers primarily goat, kid, sheep and lamb skins. Little information is available regarding availability of types from wild animals but partial data indicating the volume of exports in recent years from this area would show that shipments have been at a very substantially lower scale. There is nothing to indicate that supplies of pelts from either the domesticated or wild animals will be any greater in the immediate future than they have been in the immediate past.

II. Potential Market in U. S.

a. Leather Hides and Skins

There has been a decline in recent years of most of the types of hides and skins we formerly imported from China. This, combined with the fact that potential supplies in the country of origin are also reduced, would indicate a potential volume must smaller than that which prevailed when trade channels were open. It is estimated that the annual volume under existing supply and demand conditions would decline from \$2.5 million in 1948 to about a half million dollars and that this trade would consist chiefly of goat and kid skins and water buffalo hides. A small volume of deer skins would also be included.

SECRET

- 74 -

SECRET

b. Pelts

There has been a sharp decline since 1948 in the fur business in the United States. As a result of this drop, imports currently have declined by 70 percent from that rate which prevailed formerly. Added to this fact is the reduced supply of domesticated livestock which furnished a substantial portion of the pelts purchased from China are also down considerably indicating less availability. Therefore, the bulk of the trade in the future would consist primarily of pelts from wild animals, principally kolinsky, weasel, and marmot. It is estimated that this trade which had an annual value of \$9.7 million in 1948 would have a current yearly value of \$2 million.

SECRET

- 75 -

SECRET

FEATHERS AND DOWN

I. Chinese Availability

No specific data are available respecting current production of feathers in China, or China's plans to use this by-product as an earner of foreign exchange. An examination of existing data on recent trade with Free World countries indicates that feathers and down exports contribute substantially to China's foreign exchange potential. Imports of feathers and down by Free World countries during 1953 amounted to 6.9 million pounds worth about \$4.5 million. According to China's trade statistics, pre-communist exports to all destinations amounted to 11.5 million pounds worth \$2.7 million in 1937 and 7.2 million pounds worth \$1.1 during 1948.

Early 1955 reports on the Hong Kong market in Chinese feathers (During 1954, large quantities of Chinese feathers were shipped to Hong Kong for reexport to European countries) indicated that heavy purchases by European buyers and supply difficulties caused feathers prices to register sharp rises. New stocks of certain types were not available, and exporters had to approach speculators for supplies when demands from Germany persisted. Grey duck feathers were in heavy demand from England and Germany, but supplies shortage drove the price too high to complete transactions.

II. Trade Pattern

During 1953, imports by certain Free World countries from China were as follows:

	Million lbs.	Million \$
West Germany	3.6	\$3.3
Hong Kong	2.9	.8
Switzerland	.3	.3

Japan, Italy and France also imported Chinese feathers, but in nominal quantities.

Hong Kong continued to play an important role as a transshipment point for Chinese feathers and down during 1954, importing 4.3 million pounds valued at \$2.2 million. During this period, Hong Kong imports of feathers from China amounted to almost two-thirds of total Free World imports. Hong Kong's exports of feathers during this period were principally to Western Germany, with smaller amounts going to Norway and the United Kingdom.

United States imports from China before the communist take-over amounted to 3 million pounds valued at \$1.1 in 1937 and 7.9 million pounds valued at \$3.9 in 1948.

SECRET

- 76 -

SECRET

III. Potential Market in U. S.

An exception was made to the general ban on imports of Chinese goods in December 1950 to permit the importation of feathers and down to meet the requirements of the U. S. strategic stockpile. General imports of these products were 4.6 million lbs. in 1951 and 3.6 million lbs. in 1952; valued at \$7.0 million and \$5.6 million respectively. Licensing was suspended in 1952, and 1953 importations against residual licenses amounted to 371,000 lbs. valued at \$300,000.

It is possible, in the absence of a U. S. import ban, that if there were to be a resumption of procurement interest in the United States, Chinese availability might not be sufficient to supply a very large U.S. requirement in view of the very active interest currently being shown in this product by European buyers. Unless China's availability were to become considerably greater, which cannot be expected within a short time, Chinese feathers might tend to be priced out of the consumers market, particularly in the light of the availability of substitute products. Requirements for U. S. strategic needs might revive, however.

During the last few years foam rubber and other items have taken an increasing share of the pillow and upholstery market from feathers and down. So much so, that some of the U.S. feather processors have gone out of business and this country has been exporting feathers.

The situation is so confused that it is very difficult to guess at the potential U. S. market. If Chinese prices were about \$1 per lbs., annual exports to this country might reach 1 million pound during the next two years.

SECRET

- 77 -

SECRET

OTHER CHINA PRODUCTS

Separate surveys have been undertaken in the case of ten specific China products selected principally on the basis of their important position historically as pre-communist China exports to the United States. In addition, many of these items are believed to generally have the attributes both as to China availability and U.S. demand which would give them a place in future trade with China. The ten items explored accounted for about 84 percent by value of total China exports to the United States during 1948, which is regarded as a representative post-war year for commerce with pre-communist China.

There are several additional China products which have not historically moved to the United States in any considerable volume, but which have by reason of their unusual quality and appeal found some access to American markets. These might be regarded as showing likelihood in again being sold in the United States, possibly on a more substantial scale than in the past. Some of these items which may be considered to have better prospects in this respect are listed herewith:

Chinaware and porcelain
 Straw hats and straw braids
 Lacquer and lacquer products
 Cloisonne
 Hair and hair nets
 Spices and sauces including ginger and cassia
 Furniture - rattan, reed and seagrass
 Musk
 Chinese medicines and ingredients thereof

Since some of these are the products of cottage or home industries, their future availability for export is not certain. However, there are indications that the present Chinese regime is giving attention to the organization of these industries in order to encourage production for export. So far as the future demand in the United States is concerned, most of these items are peculiar to China and have been demonstrated to have qualities which have in the past given them ready access to the American market.

Potential United States importations from China on an annual basis during the next two years are considered practical for some of these items and categories, which are given as follows:

Chinaware and porcelain-----	\$.8 million
Human hair and hair nets-----	3.0 million
Rattan furniture-----	1.0 million
Spices, sauces and oils-----	.5 million
Lacquer and cloisonne products-----	.2 million
Total	5.5 million

SECRET