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14 January 1955

ORR/CIA Views Concerning the Reconsideration of
International Trade Controls Against Communist ChinaI. Background of ORR/CIA Interest in This Problem

The EDAC Executive Committee, as of 17 December 1954, requested this Agency to discuss criteria which would elicit adequate intelligence to meet US objectives in support of a reconsideration of the China List. This request was reiterated in a letter dated 22 December 1954 from the Deputy Director, MDAC, to the AD/RR.

The experience of this Agency indicates a close relationship between the criteria employed in a list review and the effectiveness of the intelligence which is introduced. A new set of Attributes and modifying Standards was adopted by EDAC in October 1953 to which the Central Intelligence Agency representative was unable to agree.* The view was expressed that these criteria would impair the effectiveness of the intelligence contribution in support of US negotiations, and that a substantial downgrading of commodities could be expected.

With these criteria in effect, the burden of proof was placed in large part upon intelligence to establish that the list commodities met the specified attributes. In some cases this required Bloc information which was not at hand; in some cases it required data on the Bloc which was not even available on American industries. The net effect of the exercise was the substantial downgrading of many important items which might have been held if the attributes had not unrealistically required very detailed intelligence to

* See ED/EC minutes for the meeting of 22 October 1953.

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support their retention.

To permit adequate economic justification for the retention of items on the China List (or their deletion) it is suggested that consideration be given to the views contained in the following sections.

II. ORR/CIA Views on the Relative Ineffectiveness of Differential Controls on Communist China Compared to the European Soviet Bloc

The Intelligence Advisory Committee (IAC) estimates that China is able to import from the European Bloc those commodities, including transshipped Western goods, required for a rapid expansion of military strength and industrial output. Thus, commodities embargoed against China which are not embargoed against the rest of the Bloc are supplied to China either out of Bloc production or through transshipment or reexport of Western goods. The major effect of the differential controls is not one of denial, but rather one of increasing the costs and difficulties of procurement.* For these reasons, the application of differential controls against Communist China are largely ineffective.

III. US Unilateral Action

The IAC also believes that; (a) if the US maintained its present complete embargo on both imports and exports, the foreign exchange advantages which the Chinese might otherwise gain would be reduced by roughly one-half; (b) if the US maintained only a ban on imports from and remittances to China, the potential gains in foreign exchange to China would be reduced by about the same proportion; and (c) if the US maintained only a ban on exports to China the Chinese could procure equivalent commodities elsewhere at only slightly increased costs, and could spend in other countries the dollars earned by exports to the US.*

* See NIE 100-55

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IV. ORR/CIA Suggestions Based on Certain Assumptions as to US Negotiating Limitations in International Discussions

While the limited effectiveness of differential controls covering Communist China and the European Soviet Bloc are clearly recognized as outlined in II above, it is assumed in the following paragraphs that the US policy in its international negotiations will require discussion of commodities for inclusion on a China list supplementary to present COCCOM controls against the European Soviet Bloc.

A. It is assumed that the present COCCOM lists will apply to Communist China just as they do to the European Bloc except where in conflict with a new supplemental list, in which case items on lists II and III similar to items under Embargo categories on a China supplemental list would also be embargoed. In this case the principal problem will be to determine which categories of items should be on this supplemental list.

B. It is suggested that the quotas currently assigned under International List II not be increased. The European Bloc has been in a position to procure goods for China which are subject to quotas under IL-II. The present quotas are in fact in operation against the whole Bloc (including China) at the present time.

C. It is suggested that the following approach be employed in the determination of items whose export to Communist China should be prohibited or controlled.

1. In applying criteria for the selection of categories of items for control, the position of the entire Bloc with respect to these commodities should be considered. Unless the supply situation within the whole Bloc is

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taken into consideration, it is obvious that the European Bloc can and will supply items to China not in short supply in the European Bloc.

2. In applying criteria for the selection of commodities for control, it is proposed that insofar as possible this be done on the basis of commodity categories rather than individual commodities. The reasons for this proposal are as follows:

a. Intelligence information concerning China's economic requirements for and precise uses of individual commodities is very scarce and in the absence of this information it is doubtful that satisfactory economic justification could be presented for the retention of many individual items on control lists. On the other hand, intelligence information is available in sufficient quantity to enable economic analysis of the effect of denial of broad commodity categories.

b. A further complicating factor in the selection for denial (and subsequent enforcement) of individual commodities is the possibility of substitution of one type of item for another in the same category if too precise commodity definition is used. This would be true particularly in regard to China whose primary needs are for general purpose machinery rather than specialized types. For this reason alone, the selection of individual commodities for denial rather than commodity categories would make any precise economic intelligence support virtually impossible. The broader the denial of categories of commodities the more difficult, costly and inefficient would be the Chinese problem of adjustment to achieve the same economic goals.

c. If the broad commodity category listings were adopted, it would probably make it much easier to administer and enforce a China list because

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there would be blanket embargoes which would prohibit the licensing and shipment of all types of a listed commodity without the necessity for minute examination of specifications.

3. Under the assumption that the US policy embodied in NSC 166/4 as it relates to economic defense controls will remain the same, it is proposed that the following criterion be adopted in considering items for embargo to Communist China:

Those categories of commodities which would contribute significantly to the industrial and military growth of China, provided that either of the two following conditions prevail:

- a. That these categories of commodities are in short supply in the Soviet Bloc (including China), or
- b. That these categories of commodities are in short supply in Communist China and by reason of cost, weight, transportability, etc., would be difficult to procure from other Soviet Bloc countries.

V. A. Tentative ORR/CIA Evaluation of the Categories of Items Now on the China Special List and IL II and III that Might be Retained for Embargo Under the Above Criteria

1. Electric Power and Generating Equipment

Rapid development of the electric power industry is essential to the continued growth of the Chinese economy. It has one of the highest priorities in economic planning in both China and the USSR. The supply of such equipment is not adequate to meet both sets of plans easily. Transportation of much electrical equipment is costly, particularly if accomplished overland. The electrical manufacturing industry in the Bloc (save for East Germany) is not as efficient as similar industries in the West.

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2. General Industrial Equipment

Because of the present relatively undeveloped nature of the Chinese economy, there is a great need for nearly all types of general industrial equipment. Many industrial jobs are performed in an inefficient or wasteful manner because of the absence of suitable equipment. This general category is also in short supply in the Bloc as a whole and substantial quantities are imported from the West by European Bloc countries for their own needs.

3. Transportation Equipment

Like electric power, the continued development of the transportation industry is essential to the continued growth of the Chinese economy. It also has one of the highest priorities in Chinese economic planning. Domestic Chinese production is not adequate to supply all of China's needs. Because of a difference in railroad gauge, much of the Soviet equipment, which is already in tight supply, would not be useful to the Chinese without extensive modification.

4. Electronic and Precision Instruments

This general category is essential to any complex industrial development, particularly that designed to support military power. This category is also in short supply throughout the Bloc, and the small Bloc electronics industry is a high cost producer.

5. Metals, Minerals and Manufactures (including copper)

Communist China needs a wide range of metals in varying forms. This need will grow as the economy develops. Many of these metals and metal

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manufacturers would be used in categories covered above or in services such as communications which are extremely important to the future growth of the economy. Most of the items in this category are in short supply in the Bloc or are produced at high cost.

B. Tentative ORR/CIA Evaluation of the Categories of Items Now on the China Special List that Might be Removed from the List, but Continued Under Quota and/or Surveillance

1. Metalworking Machinery

All significant items are now on IL I and II. The remainder are produced in adequate quantity in the Bloc at low cost and easily transportable.

2. Chemical and Petroleum Equipment

All significant items are now on IL I and II. The remainder are produced in adequate quantity in the Bloc at low cost and easily transportable.

3. Chemical and Petroleum Products

All significant items are now on IL I and II. The remainder are produced in adequate quantity in the Bloc and easily transportable.

4. Rubber and Rubber Products

Available in part from non-COCOM sources or from Bloc production. Easily transportable.

5. Miscellaneous

Relatively unimportant items or items which are produced in adequate quantity in the Bloc and easily transportable.

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