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1. What is the balance of payments position of China, vis-a-vis (a) USSR, (b) Satellites, (c) The Western World?

Communist China achieved an export surplus in 1950 of approximately \$50 million.

The favorable balance was the result of an export surplus with the Soviet Bloc offsetting a ~~deficit~~ with the West. But in 1951 Communist China's mushrooming need for imports to run a war wiped out this modest surplus. Total imports in 1951 were probably \$400 million more than China's exports for a net adverse balance of \$415 million or a cumulative balance of \$365 million since 1950. Of this balance for 1950-51, 63 percent or \$230 million was on Western account.

To cover the import surplus with the West, available foreign exchange reserves from earlier years were probably augmented by \$175 million through overseas remittances and by exchange raised from private holdings and by opium and gold sales. Overseas remittances in 1952 and 1953 were probably sufficient to finance the import surplus with the West.

The 1950-51 import surplus of \$150 million with the Soviet Union, largely the result of military purchases, was probably covered by the annual loan extensions of \$60 million and a special supplementary loan in 1951. Since 1951 China may have had a slight export surplus with the Soviet Union.

It has been estimated that the planes and parts provided China by the Soviet Union would be valued at over \$500 million (in US prices) for both 1951 and 1952. 25X1

It has not yet been determined how this affects the balance of payments.

suggests that the planes are loaned with China paying for destroyed aircraft. It

is also possible that the planes (and other war material) were sold for a token

payment. The above trade figures cannot include aircraft valued at \$500 million.

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Communist China has possibly maintained a favorable trade balance with the Satellites since trade relations were re-established in 1950.

In general, it appears that China is pushing exports but holding imports in line with available foreign exchange. Thus, the Chinese Communists are operating on a very narrow margin of reserves.

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2. What are Communist China's broad import requirements for its new industrialization program?

The September 1953 agreement on Soviet aid during the Chinese 5-year industrialization plan indicates that much of the Soviet aid will go toward increasing the production of industrial raw materials - steel, non-ferrous metals, coal, electric power, oil - and the production of machinery and transportation equipment.

an adequate

A well-developed transportation and communications network facilitates the development of the internal economy as well as moves export goods to the border. In the past imports of such equipment and supplies have been given a high priority. No doubt, supplies still have a high priority though requirements are much less because of the rapid reconstruction and growth of the network. Equipment will probably continue to be imported under the plan though a domestic manufacturing industry is a possibility.

Shortage of electrical generating capacity is believed to be one of the key problems affecting China's present industrial potential, for power is basic to the entire economy. Communist China has recognized the seriousness of this problem and imported whole power plants. One of the three Sino-Soviet agreements concluded early in 1953 provided for Soviet aid to China for the expansion of power stations, both existing and under construction.

Once transportation, communications, and power is provided, then the industries producing industrial raw materials and capital goods are free to develop more rapidly. (It is not likely that any of these sectors of the economy has been given an over-riding priority so that one will be developed completely before the other, for these sectors are interdependent.) However, China must expect

DRAFT

to import during this 5-year period a large part of her capital goods and some of the raw materials.

In general, it may be expected that imports of industrial ^{equipment} ~~goods~~ in the beginning of this period will continue to be basic and ^{producer's} ~~simple~~ goods requiring *relatively simple operational maintenance rather than the most* ~~advanced and highly complicated processes or training personnel or special maintenance.~~ *advanced and highly complicated processes and skills necessary for a highly developed technology.* Perhaps under the later years of the plan more complex machinery and products will be required for China's industrialization.

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3. To what extent is there state control over foreign trade and how would present Chinese trading rules affect trade with the West?

A uniform but rigid system of foreign trade control was adopted after the outbreak of the Korean war. Under this system private trade is still recognized, but the requirement that exports and imports not only must be licensed but must also be approved by the appropriate government authority assures complete governmental control. However, state-operated companies are now carrying on about 90 percent of the total foreign trade. All trade with the Soviet Bloc and state-sponsored deals with non-Communist countries are handled by the state companies. Private traders are "encouraged" to handle minor commodities, which they trade mainly with and through Hong Kong and Macao.

The foreign trade control system screens trade (1) to eliminate or reduce imports of luxuries and the export of "strategic" materials, ^{to the West} (2) to utilize trade as an adjunct to government policy, and (3) to produce under the barter-link system favorable terms of trading and special advantages vis-a-vis the West. The barter-link system, based on the principle of importing before exporting, is an effort to link vital or strategic imports with less important exports. However, control is flexible and changeable. Control provisions are often waived in government sponsored deals in favor of political and ^{economic requirements} ~~propaganda~~ reasons. Barter in this manner sometimes requires the ^{foreign} ~~Western~~ exporter (this holds true for the Chinese, too) to be an importer as well, and vice versa; an awkward predicament for the ^{foreign} ~~Western~~ trader.

Foreign exchange is controlled with a view to finance needed imports. All foreign exchange must be surrendered to the Bank of China or its appointed banks.

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Control of the exchange rate seems to be partially directed by this view - so that exporters (before 1952) often suffered by constant revision of the rates.

The exchange rate since mid-1951 has remained constant except for an upward revision on 6 December 1952.

Communist China had generally shown indifference to trade with non-Communist countries, until the Moscow Economic Conference. The demand at this conference for expanded trade with the West may possibly have reflected Communist China's concern over the embargo and China's desire to use the trade agreements set forth there as wedges to split those countries carrying out the UN embargo. However, this renewed effort to regain trade with non-Communist countries was characterized by trade directly with the Chinese Communist Government rather than trade through private channels. This may also have been an attempt to bypass the established entreport traders in Hong Kong to get to the manufacturer, and so tighten control over trade with the West as well as squeeze out the middle-man's costs.

As late as December 1953 Communist China was fixing more stringent terms for Western concerns wishing to trade. The Chinese require foreign exporters to quote the lowest possible prices and to expect no payment until 15 days after the arrival of cargoes in a China port. Foreign concerns have been advised that the COMECON is the sole agency with which they can do business, with a few exceptions. Deals that call for barter of foreign goods for Chinese products are favored.

The emphasis, at present, is apparently to tighten controls over trade so as ~~to maximize export possibilities particularly for the industrial program and to~~ improve Communist China's position vis-a-vis the West; ^{apparently} ~~perhaps~~ because if the

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embargo is lifted, Communist China expects keen competition among the Western exporters for trade with China.

The West continues to trade with Communist China in spite of its
~~Certainly these trading procedures or rules do not unduly hamper trade with~~

hampering rules and procedures
the West; they are minor irritants. It is ~~not~~ ^{one expression of} the rules and procedures ~~but~~ the

which limits with West
general policy behind them ~~that influences~~ ^{the} trade ~~the~~ ^{West}. The main reason for

the smallness of Sino-West trade is, of course, the fact that Communist China has apparently deliberately reoriented trade toward and concluded binding agreements

with the Soviet Bloc. How much of this reorientation was due to normal develop-

Communist China's "leaning toward" The Bloc
ments, how much to ~~a favored position~~, and how much to the embargo is not known.

The trend
Removal of the embargo would not necessarily reverse ~~this process~~ significantly.

to influence the trend differently.
The West would have to offer more attractive terms and ~~this may be difficult~~.

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DRAFT

4. To what extent would Communist China's balance of payments position affect her import preference, i.e., the selection of Bloc countries or Western nations as the source of supply?

Communist China's import preference is only partly determined by economic factors. Thus, the reorientation of China's trade from the West to the Bloc was probably induced in part by the political fact that the two areas were Communist and basically hostile to the West.

However, China's import preference is also limited by the available foreign exchange which in turn is largely limited by her ability to export. Both China and the Bloc are agricultural, and this limits China's ability to export to the Bloc. The Bloc cannot absorb all of China's ^{available} agricultural ^{efforts} surplus, for the Bloc produces many of these products, too. In other cases, as for example, tungoil and bristles, Chinese products have always found their main market in the West and cannot be used in quantity in the Bloc.

Foreign exchange thus earned from exports to the West generally must be expended on imports from the West. In recent years the Soviet Union has apparently accepted only gold, US dollars (which, of course, are relatively scarce) and some sterling. At the present time, however, the USSR appears to need sterling and this may give ^{Communist} China some additional flexibility as long as this sterling shortage exists in the USSR. The accounts with the Bloc and with the West have apparently been kept separately in balance largely because of the Soviet exchange restrictions and the barter principle upon which trade is usually based.

^{Communist} If trade between China and Japan were to develop, Chinese exports of coal, iron ore, and other raw materials might considerably improve the flexibility of

DRAFT

the Chinese position. This appears to be the nearest major market in the West in which the Chinese might find a major expansion of their exports possible.

Essentially then, the direction of trade is determined by the share Communist China offers to the West. However, the overseas Chinese remittances - approximately \$50 million - enables the Chinese Communists to purchase more from the West than they export. Another source of foreign exchange - Western capital - is definitely anathema. As long as individual Western accounts are not too far out of balance it is possible for China to balance them by ^{offsetting and sales} the purchase of Western currencies on the free Hong Kong market ^{or by selling food supplies to Hong Kong.}

It is not likely that China ~~can~~ wants to convert Western currencies into rubles. It is more likely that at least in 1950 China had wanted to ^{acquire dollars from the USSR} ~~use~~ ^{against a} rubles ^{credit} to purchase Western capital equipment. However, the Soviet loans restrict China to purchases of Soviet goods. The numerous barter trade agreements with the Bloc also directs trade inward toward the Bloc. It is significant to note that the Soviet loan can be repaid in dollars (and gold and Chinese products). If the embargo were lifted, it is possible that the Soviet Union might insist on repayment in dollars. This, of course, would encourage China to export to the United States or dollar areas.

Thus, the political decision to trade with like-Communist countries, coupled with barter trade and Soviet exchange restrictions, has and probably will to a

large extent determine the trade pattern. *The relaxation of Western controls and the willingness of the West to accept gold in payment of exports to the USSR (or to Communist China) would add flexibility of markets and settlement arrangements as advantages to the USSR's and Communist China's trading position; but their politically determined trade policies would continue to be the determining factors in the general direction of Communist China's trade.*

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5. To what extent can the Bloc offset Western controls on certain broad categories of Western exports?

Under present Western controls and the Soviet Bloc system of priorities the Soviet Bloc has been able to meet nearly all of Communist China's minimum requirements for the "strategic" commodities. A small and apparently insignificant portion of these shipments are purchases from the West for transshipment via the Bloc to Communist China. In some instances the Bloc is in short supply, particularly in bearings, electrical and electronic equipment, locomotives and some chemicals. Either the Bloc sacrifices to supply China, as for example in the case of locomotives, or China attempts to circumvent Western controls, as for example in the case of bearings.

In all cases (except rubber), the Bloc from its own sources could supply China with at least minimum requirements, provided China were given one of the highest priorities. Thus, five percent of Soviet production of electrical and electronic equipment would satisfy Chinese needs, even though ^{such supplies are short} ~~in short supply~~ in the Soviet Union. ^{Communist} Though ^{it offers} China's requirements are not fully known, ~~China has~~ little or no market for the more complex and intricate machinery and equipment, transportation equipment, and highly refined specialty chemicals, which require special processes, or trained personnel, or special, or extensive maintenance.

^{Communist} China has not adopted the diesel locomotive because of the maintenance problem.

It is in this more advanced product that the Bloc would have difficulty in supplying ^{types of} China, but ^{the latter} ~~China~~ may not be ready for this type for several years yet, in which time the Bloc may be in a better supply position.

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of the Bloc's capability to supply Communist China's DRAFT
The following is an analysis by broad categories of strategic goods (as drawn

up for the China Prohibited Cargo List):

- a. Arms and Munition: The Soviet Union has certainly met China's minimum demands for war material.
- b. Electrical and Electronic Equipment: Communist China's requirements are small, yet Communist China has had to import some Western goods, for the Soviet supply situation is short.
- c. Machinery and Industrial Equipment: In the basic and less complex machinery and equipment, the Bloc can meet ^{Communist} China's minimal needs. The significant exception is bearings which have a higher priority in the Soviet Union.
- d. Metals (iron and steel and miscellaneous metals and alloys): The Soviet Union has not been able to meet China's requirements of rolled steel products.
- e. Oil: The Bloc can supply China ^{is minimum requirements} ~~without much difficulty~~ ^{at a considerable effort in transportation}.
- f. Rubber: The Bloc does not produce rubber, but can supply some synthetic rubber.
- g. Chemicals: In general the Soviet Union can supply those chemicals considered strategic by the West. However, the Soviet Union probably does not meet Chinese demands for phenol and ammonium nitrate. Chile saltpetre ^{nitrous (?)} and cellulose are not considered strategic by the West but both can be used in the manufacture of explosives. The Bloc cannot supply either.
- h. Transport and Marine Equipment: In railroad equipment the Bloc is somewhat short. However, the Bloc sacrifices its own consumption to supply China.

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6. Communist China's foreign trade: 1950-1953

The following table represents the latest estimates of Communist China's foreign trade for 1950 through 1953. These estimates are closely interrelated, based largely on trade relationships or equations derived from Communist disclosures, and on recorded trade estimates of Sino-West imports and exports.

TABLE 1
Communist China's Foreign Trade ^{a/}
1950-1953
(millions of US dollars)

	<u>USSR</u>	<u>SATELLITES</u>	<u>BLOC</u>	<u>WEST</u>	<u>TOTAL</u>
<u>IMPORTS</u>					
1950	103	7	110	415	525
1951	615	145	760	530	1290
1952	557	173	730	320	1050
1953 Plan	765	245	1010	375 ^{b/}	1385
<u>EXPORTS</u>					
1950	153	22	175	400	575
1951	415	145	560	315	875
1952	567	213	780	270	1050
1953 Plan	775 ^{c/}	285	1060	325 ^{b/}	1385

a/ Revisions have been added.

b/ These estimates have been checked independently. Though based on incomplete data, total recorded exports for 1953 amounted to \$334 million and total recorded and unrecorded imports for 1953 amounted to ~~\$355~~ ³⁵⁰ million.

c/ Analysis of available data on ^{available} shipments will not support this estimate and suggests a magnitude of \$630 million (see text). ^{of available exports.}

The FIC-RI-S2 estimates have been revised in the light of other information now available.

A breakdown of the Soviet Bloc trade in 1951 as between the Soviet Union and the Satellites was made possible by the publication of the claim that total trade with the Soviet Union in 1951 was to be four times the 1950 level, or on the basis of estimated 1950 trade, approximately \$1,030 million. ¹⁹⁵¹ Satellite trade is thus

DRAFT

\$290 million or the residual of Soviet Bloc trade less Soviet Union trade. If it is assumed that the trade with the Satellites was in balance, or \$145 million each way, then Communist China's imports from and exports to the Soviet Union in 1951 would amount to \$315 million and \$215 million, respectively. But this estimate of \$215 million appears to be low. In 1950, exports to the Soviet Union showed a rising trend; exports in the second half were at least double exports in the first half. As Communist China was making a great effort to restore trade at least to prewar levels and simultaneously was shifting its trade toward the Bloc, it would be reasonable to expect a further increase in exports in 1951. Thus, the decline of \$85 million in exports to the West in 1951 over 1950 may have been offset by a corresponding increase in exports to the Bloc. In fact, the Chinese Communists admitted a rising trend in trade when claiming a doubling in the 1951 trade turnover over that of 1950. Yet exports in the second half of 1950, at an annual rate, probably were equal to 1951 exports, thus showing no ~~decrease~~ ^{further} ~~increase~~ in 1951. As it is reasonable to expect the rising trend in 1950 to continue into 1951, the estimate of exports to the Soviet Union in 1951 was revised upward by \$200 million to \$415 million. As total Sino-Soviet trade was fixed at \$1,030 million, ^{the estimate of} imports from the Soviet Union ^{was} reduced by \$200 million to \$615 million. As compared to the previous ^{estimated} \$600 million deficit, this \$200 million deficit on the trade account appears to be more in line with the estimated loan extensions in 1951 of \$158.5 million.

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Revision of these figures, however,

means that total 1951 exports and imports must also be adjusted, but the 1951 export

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figure is based on a Chinese Communist claim made in October 1951 that total exports for 1951 were 60 percent greater ^{in value} than the 1936 exports of China. It is not clear what this statement represents and so ^{it is now} ~~assumed~~ discarded. It is now possible to recalculate total exports by adding exports to the Bloc to exports to the West. Similarly, total imports can be recalculated.

The 1952 estimates of trade with the Bloc represent modifications of those appearing in EIC-RI-S2. In that report China's trade with the Bloc was based on the assumption that China had an import surplus of \$150 million in its total foreign trade in 1952. The above estimates are based on Lin⁴ Ning-i's assertion that Communist China's trade in 1952 was in balance.

An estimate of Communist China's 1953 trade plans is based on the assumption ^{total trade is in balance and that with the West and with the Bloc} that the trade balances ~~are~~ the same as in 1952 and on the following Communist claims: (1) the volume of total trade in 1953 is to be 32 percent higher than in 1952, (2) trade with the Soviet Bloc is to be increased by 37 percent in 1953 over 1952, and (3) trade with six Eastern European Satellites in 1953 would be 37.4 percent over 1952 levels.

On this basis planned exports would amount to \$775 million. Assuming an average price of ¹¹⁰⁻¹¹⁵ ~~\$115-120~~ per ton, this would be the value of approximately ⁷ ~~6.6~~ million tons of freight, but there is no evidence to support shipments of this magnitude. It is likely that Chinese export shipments to the Soviet Union may be approximately 20 percent less than the estimated planned, or about \$630 million. Moreover, it is possible that the planned value of exports includes some services ^{and specie} not reflected in the quantity of shipments from China to the USSR.

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The Western Trade Controls have forced a shift in the orientation of Communist China's trade from the Free World to the USSR and the Soviet Bloc. Whereas in 1950 about 3/4 of Communist China's trade was with the Free World, at the present time 3/4 of its trade is with the Soviet Bloc. It is perhaps significant that this adjustment could be made in a relatively short period of time and that the total value of trade is higher than in 1950. It is doubtful, however, whether the Bloc nations have been able to absorb exports from Communist China of such products as tung oil and hog bristles for which the US had been the principal market. Thus, the inhibiting effect of Western trade controls on the Communist China economy and war potential has been uncertain.

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stimulant to politically determined

Western trade controls have acted largely as a ~~catalyst~~ *stimulant to politically determined* in the reorientation of Communist China's trade from the Free World to the USSR and the European Satellites. Whereas in 1950 about 3/4 of Communist China's trade was with the Free World, at the present time 3/4 of its trade is with the Soviet Bloc. It is perhaps significant that this adjustment could be made in a relatively short period of time and that the total value of trade is higher now than in 1950. It is doubtful, however, whether the Soviet Bloc has been able to absorb those Chinese products such as tung oil and hog bristles for which the US had been the principal market before the imposition of the embargo. This has apparently hurt China, but the over-all effect of Western trade controls on the Communist China economy and war potential has been uncertain.

we do know that CC has - 15 - been able to secure most of the strategic commodities from the bloc, the costs are unknown.

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Soviet Union Exports to Communist China 1/ 1951-1953 2/

Year	Armaments (MT)	Ammu- nition (MT)	Petroleum (MT)	Manufactured Goods and Miscellaneous (MT)	Agricultural Products (MT)	Total All Carriers (MT)	Total Overland (MT)	Total Sea (MT)	Total Inland Water (MT)	Total Overland (millions of \$)	Total Sea (millions of \$)	Total Inland Water (millions of \$)	Total Value ^{3/} of Movements- All Carriers (millions of \$)	Total Value of Trade (millions of \$)
1951	205,000	71,000	815,000	518,000	27,000	1,636,000	1,386,000	200,000	50,000	680	14	3	497	615
1952	295,000	100,000	1,000,000	663,000	35,000	2,093,000	1,818,000	200,000	75,000	649	17	4	670	557
1953	245,000	81,000	1,100,000	679,000	35,000	2,141,000	1,841,000	200,000	100,000	591	17	5	613	765

^{1/} Includes Sinkiang Province.

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^{2/} Estimates of armament and ammunition shipments were originated by or coordinated [redacted]. Petroleum estimates are those of [redacted] (CNR). 1953 figures in both cases are preliminary. Tonnage of manufactured goods and agricultural commodities were considered to constitute one-third of total tonnage as against petroleum and war materiel, with 1/20 agricultural and 19/20 manufactured goods. Assumed average values were \$400 per metric ton for manufactures and miscellaneous and \$150 per metric ton for agricultural goods.

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^{3/} Total value of trade represents contracted value of goods and services received by China from the USSR as scheduled for each of the years involved. Total value of freight movements represents an estimate of the value of goods which actually moved in each of the years. Differences may be occasioned by time lags in shipping and method of accounting. The most important factor, however, probably is the item of armaments and ammunition, wherein estimates were provided for the Far East theatre on a weight basis on which values are unobtainable. A value of \$1,000 per metric ton has been assigned to these estimates, which is very low by US standards. There is the further possibility that a portion of the military goods may have been lent, rented, or given for a token or deferred payment. Aircraft have been omitted entirely because of their light weight on the one hand and disproportionately heavy value on the other. It has been estimated that aircraft delivered to China would, if valued at US prices, almost equal the herein estimated value of the trade during the years 1951 and 1952.

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Communist Chinese Exports to USSR, 1951-1953²

Year	Agricultural Products Overland (MT)	Agricultural Products Sea (MT)	Agricultural Products Inland Water (MT)	Industrial Raw Mats. Overland (MT)	Industrial Raw Mats. Sea (MT)	Industrial Raw Mats. Inland Water (MT)	Non-Ferrous Metals Overland (MT)	Non-Ferrous Metals Sea (MT)	Non-Ferrous Metals Inland Water (MT)	Total Overland (MT)
1951	2,100,000	10,000	-----	1,650,000	-----	-----	40,000	-----	-----	3,790,000
1952	2,800,000	38,000	50,000	2,200,000 2,200,000	65,000	50,000	40,000	-----	-----	5,040,000
1953	2,900,000	100,000	50,000	2,400,000 2,400,000	150,000	50,000	40,000	-----	-----	5,340,000

¹ Includes Sinkiang Province.

² based upon compilations derived from 50 reports and from commodity estimates prepared by E/A and D/A.

³ Includes 1,000,000 tons of coal. There is an estimate of ^{3,000,000} ~~2,000,000~~ tons based on Sino-Russian trade agreements but compilations of available data on coal movements cannot support the export of such a large amount.

⁴ Planned exports valued for 1953 amount 1.5 billion dollars, but the export tonnage represented by this planned value of exports cannot be supported by such data that are available on shipments. It is possible that the planned value of exports included some services not reflected in the quantity of shipments from China to the USSR.

DRAFT

<u>Total Sea (amt)</u>	<u>Total Inland Water (amt)</u>	<u>Total All Carriers (amt)</u>	<u>Total Overland Value (millions of \$)</u>	<u>Total Sea Value (millions of \$)</u>	<u>Total Inland Water Value (millions of \$)</u>	<u>Total Value (millions of \$)</u>
10,000	-----	3,800,000	412	3	--	415
103,000	100,000	5,503,000 5,243,000	523	37	7	567
220,000	100,000	6,250,000 5,690,000	552	71	7	630 1/2