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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Revival of Sino-Soviet Trade

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
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INTELLIGENCE MEMORANDUM

THE REVIVAL OF SINO-SOVIET TRADE

Summary

1. Sino-Soviet trade, which had plummeted to an annual level of about US \$50 million in 1969-70, has been reviving rapidly and may reach a level of \$350 million in 1973. This level should re-establish the position of the USSR as the third largest trading partner of the People's Republic of China (PRC) - trailing Japan and Hong Kong.

2. The revival of Sino-Soviet trade is marked by the following developments:

- Formal trade agreements again are being signed after having been suspended since 1967.

- Border trade between Soviet Far Eastern cooperatives and China's Heilungkiang Province has resumed.

- Most of the commodities eliminated from Sino-Soviet trade during the depressed period are reappearing.

- In spite of tense political relations and difficult bargaining, multi-year agreements are being signed for the delivery of major products such as Soviet aircraft and turbogenerators.

- Finally, a long-term general trade agreement is being negotiated.

3. Prospects for growth of Sino-Soviet trade above the \$350 million level depend on the course of political relations and on Soviet competitiveness with other suppliers of machinery and technology. The

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Soviets have long since lost their monopoly position of the 1950s and must share the Chinese market with Japan, the industrial nations of Europe, and, now, the United States. The Soviets enjoy a natural advantage in the supply of timber products and certain machinery and replacement parts. At the same time, the USSR benefits from the supply of Chinese foodstuffs, particularly to the Soviet Far East, as well as Chinese textiles, nonferrous metals, and other raw materials. Because Peking is emphasizing the acquisition of selected advanced technology from abroad – the kind of technology that the Soviets are incorporating in their own production lines only with the greatest difficulty – Sino-Soviet trade is not likely to advance beyond the \$350 million level at a rapid pace.

Discussion

Background

4. In the 1950s the new Communist government of China was "leaning to one side" and was adopting the Soviet system of industrialization lock, stock, and barrel. Trade with the Soviet Union rose rapidly to a peak of \$2 billion (exports plus imports) and constituted about one-half of China's total trade. (For Sino-Soviet trade as a portion of total Chinese trade in 1950-71, see the Appendix.) Trade with Eastern Europe brought China's trade with all Communist countries up to 70% of total trade. Because of the widening Sino-Soviet rift and the withdrawal of Soviet technical support in mid-1960, China turned to Japan and Western Europe for machinery and technology. By the end of the 1960s, only 20% of China's trade was with the Communist world. This switch is illustrated in the following tabulation.

Year	Percent		
	Non-Communist Trade	Communist Trade	Soviet Trade Alone
1959	31	69	48
1966	74	26	8
1970	80	20	1
1971	79	21	3

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5. In the early 1960s, China had run a considerable trade surplus with the USSR to pay off approximately \$1.4 billion in Soviet long-term loans. By the end of 1965 the debt had been wiped out, and Sino-Soviet trade had fallen to a level based mostly on mutual economic benefits - that is, a level of \$320 million. Soviet imports had been reduced largely to consumer goods, especially for the Soviet Far East, a food deficit region isolated from the major areas of Soviet production. In return, China received badly needed industrial machinery and transport equipment such as trucks and aircraft, spare parts for the Soviet equipment installed in Chinese industries, steel products, and timber. In addition, many petty commodities were traded both ways across the border for the convenience of the local citizens.

Reduced Level of Trade, 1967-70

6. The Great Proletarian Cultural Revolution was causing widespread and violent disruptions throughout the economy by early 1967. Sino-Soviet trade was affected by (a) deteriorating relations,* (b) purges of China's foreign trade officials, (c) disruptions in transportation, and (d) shortages of exportable Chinese commodities brought about by the interruptions to industrial production. These disruptions, when coupled with the intensification of hostilities along the Sino-Soviet border, caused trade in 1967 to drop to about \$105 million, or one-third of the 1966 level.

7. Trade was affected across the board, but some specific incidents had important impacts on the level of trade. For example, the Soviets and Chinese signed an agreement in 1965 to exchange Chinese pork for Siberian timber. During 1966 this exchange amounted to \$28 million worth of logs shipped to China in return for \$47 million worth of meat imported from China. A provision of this agreement called for the Chinese to provide to the Soviets a monthly bulletin on animal health. During 1967 the Chinese refused to provide this document, and the Soviets rejected the consignments of Chinese pork at the border. In retaliation the Chinese stopped imports of timber from the USSR. As a result the agreement was abandoned in September 1967, and no further exchanges were observed until mid-1972.

8. Trade in 1968 continued at the low 1967 level; Chinese exports dropped by \$20 million while imports from the USSR increased by nearly \$10 million. Relations continued to worsen and border incidents to increase. The two countries could not agree on a trade agreement. Border security tightened further and culminated in open fighting during 1969. As a result the border-type trade stopped completely. Total trade fell to about \$55 million in 1969 and \$45 million in 1970, the bare maintenance level (see

* The two governments had withdrawn their ambassadors by the end of 1966.

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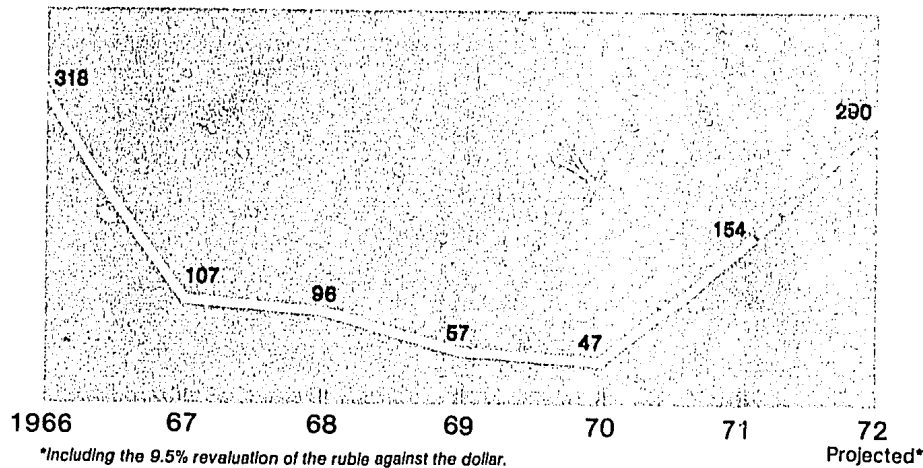
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Figure 1). Chinese imports consisted mostly of spare parts for Soviet equipment, while its exports were practically confined to clothing and fruits.

Sino-Soviet Trade

Figure 1

Million US \$



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Revived Level of Trade, 1971-72

9. The emergence of the PRC from the Cultural Revolution, its return to traditional diplomatic relations, and the end of fighting along the Sino-Soviet border encouraged Moscow and Peking to reassign ambassadors during 1970 and to begin normalization of their trade relations. They first signed a border trade protocol covering three Soviet consumer cooperatives and the Heilungkiang Provincial Trading Company in September 1970 and then a general trade agreement in November 1970 – their first since July 1967. As a result, trade in 1971 jumped to about \$155 million. Another general trade agreement was signed on 5 August 1971 and a third on 13 June 1972. According to these latest agreements, trade both ways during 1972 is to amount to about 240 million rubles – \$290 million at the new ruble-dollar exchange rate. This level, which appears feasible, will return Sino-Soviet trade to nearly the 1966 level.

Commodity Composition

10. Most of the value of China's imports and exports with the USSR can be accounted for by a few commodities. China mainly exports food, clothing, bristles, and tungsten concentrate in exchange for machinery and equipment, steel products, explosives, timber, and military items (see the table). The drop in trade in 1967-70 saw the drastic reduction or elimination of some of these items from the trade lists. For example, in addition to

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Commodity Distribution of Sino-Soviet Trade

	Million US \$					
	1966	1967	1968	1969	1970	1971
Chinese exports	143.1	56.7	36.7	29.0	21.7	75.2
Food products	61.3	14.0	5.2	4.7	5.4	18.4
Meat	46.9	0.6	0.1	0	0	0
Fruit	10.1	10.8	4.9	2.4	5.4	10.1
Other foods	4.3	2.6	0.2	2.3	0	8.3
Bristles	3.3	1.3	0	0	0	8.5
Clothing	46.9	24.5	25.5	15.2	10.1	23.2
Leather footwear	0.1	0	0	0	1.3	3.3
Cloth fabrics	2.2	5.3	Negl.	4.9	1.1	2.8
Tungsten concentrates	5.8	1.3	0	0	1.6	9.3
Other identified products	15.8	8.9	1.8	4.1	2.1	9.0
Residual	7.7	1.4	4.2	0.1	0.1	1.7
Chinese imports	175.3	50.3	59.3	27.8	24.9	77.9
Machinery and equipment <u>a/</u>	86.2	24.6	14.9	21.6	16.4	54.6
Motor vehicles	27.1	3.8	5.8	5.5	3.8	7.2
Aircraft	14.4	10.7	2.1	5.2	4.8	33.8
Agricultural equipment	14.6	2.5	2.9	3.7	2.2	3.6
Laboratory equipment and instruments	4.7	1.4	1.6	0.4	0.3	0.5
Metalworking machine tools	7.7	0.8	0.2	1.1	1.4	3.8
Roadbuilding equipment	7.2	0.3	0.1	0.1	Negl.	Negl.
Complete plants	3.9	0.3	1.7	0	0	N.A. <u>b/</u>
Miscellaneous machinery and equipment	6.6	4.8	0.5	5.6	3.9	5.7
Ferrous metals	14.6	8.3	8.7	3.1	3.3	6.9
Explosives	4.7	3.0	2.3	0	1.3	4.0
Timber	28.5	1.4	0	0	0	0
Other identified products	11.6	8.1	3.9	2.4	1.0	1.6
Residual <u>c/</u>	29.7	4.9	29.5	0.7	2.9	10.8

a. Including \$7.5 million to \$10 million worth of spare parts annually.

b. This category is no longer reported in the Soviet trade statistics.

c. This category undoubtedly includes receipts for military aircraft received during 1966, 1968, and 1971.

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the pork mentioned above, China stopped shipping bristles, leather footwear, and tungsten concentrate.

11. At least 75 different commodities were exported to the USSR by China in 1966; by 1968 forty-six of these were no longer shipped, and by 1970 the list had been reduced to just 17 different commodities. The flow of the multitude of chemical and household items that were exchanged across the border was completely halted. As a result, the total value of these Chinese border exports, which amounted to \$16 million in 1966, had fallen in value to about \$2 million by 1968. Furthermore, the value of Chinese exports of food and clothing fell from \$108 million during 1966 to a mere \$16 million by 1970.

12. During this same period the Chinese reduced the value of all imports and stopped buying – or the Soviets stopped selling – a similarly large number of commodities. The importing of machinery and equipment fell from \$86 million during 1966 to \$15 million during 1968 and remained at that low level through 1970. At least half of this amount was for spare parts for the Soviet machinery and equipment installed in Chinese factories. Timber imports stopped during 1967 and the imports of explosives were halted during 1969, when open fighting broke out on the border.

Soviet Aircraft Deliveries

13. In contrast to the large reductions in other trade and in spite of the progressive worsening of Sino-Soviet relations during 1966-70, the USSR shipped a sizable number of military and civilian aircraft to China during 1966-71. According to Soviet trade data, the value of Chinese imports of aircraft, including spare parts, totaled \$71 million in 1966-71 (see the table). Other information suggests that actual Soviet aircraft sales to the PRC during this period exceeded this amount. Soviet export data usually do not identify all of the specific commodities shipped, nor do they openly record military shipments. It has been hypothesized that the category of unidentified commodities ("Residual" in the table) contains Soviet military shipments to other countries under credit or current account. Deliveries under grants are not included in Soviet trade statistics. The residuals in Chinese imports in 1966, 1968, and 1971 all reflect abnormally high amounts – \$30 million each in 1966 and 1968 and \$11 million in 1971. Indeed, the residual for 1968 accounted for one-half of all Chinese imports from the USSR in that year. These residuals coincide with the Soviet aircraft sales to the PRC shown in the following tabulation.

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	<u>1966</u>	<u>1968</u>	<u>1971</u>
AN-12	4	10	--
AN-24	--	5	6
IL-18 <u>a/</u>	6	--	--
IL-62	--	--	2
MI-6	--	--	3

a. Nine additional IL-18s were purchased in 1964-65 and 5 in 1967.

14. The value of Soviet aircraft deliveries to China during 1966-71, roughly estimated on the basis of Soviet export list prices, was between \$85 million and \$160 million; the lower figure represents only the price of the aircraft sold in 1966-71, and the higher figure includes the IL-18s purchased in 1964-65 as well as a 50% markup for spare engines and other equipment for all of the aircraft. These estimates suggest that the value of Soviet aircraft deliveries to China during 1966-71 exceeded the \$71 million listed in Soviet trade statistics and may have equaled the value of the listed aircraft deliveries and the "Residual," or a total of \$150 million.

Balance of Trade

15. When, at the end of 1965, the PRC had finished paying off its debts to the USSR, it no longer needed to run a trade surplus. Accordingly, Chinese exports to the USSR in 1966 dropped by \$83 million whereas imports fell by \$16 million from the 1965 level. Thus the Chinese ran a \$32 million trade deficit with the USSR, the first deficit since 1955. A slight Chinese surplus was recorded in 1967, but in 1968, despite the strained relations and low levels of trade, another \$23 million deficit was recorded by the Chinese (see Figure 2) -- 38% of their total imports from the Soviets. Trade between the two countries since 1968 has been roughly in balance.

16. If -- as Peking states -- China has owed no debt to the USSR since 1965, it is unclear how the large trade deficits in 1966 and 1968 were settled. Soviet payments for shipments bound for North Vietnam over China's transport system undoubtedly helped, covering perhaps one-fourth to one-third of the trade deficit in these years. Other service transactions probably provided little if any offset, and it seems unlikely that the USSR would carry sums this large as clearing account credits to China. Therefore, a sizable portion of the 1966 and 1968 trade deficits probably were settled in hard currency or gold.

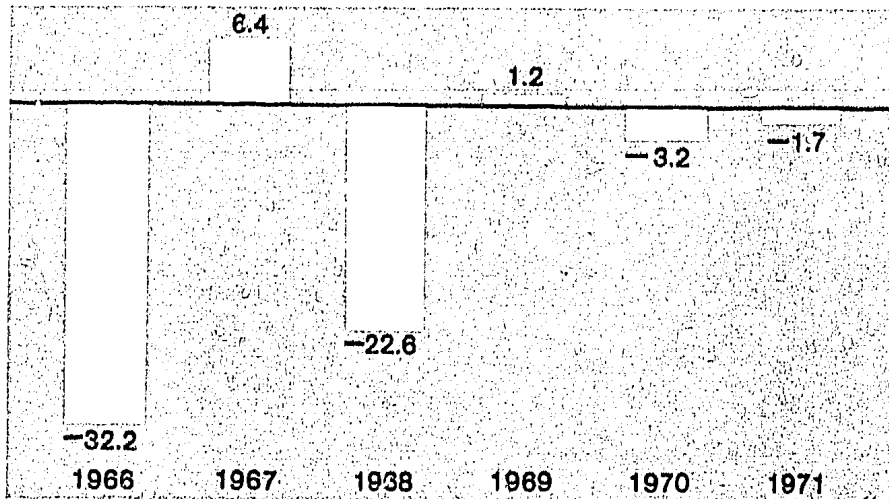
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China's Balance of Trade with the USSR

Figure 2

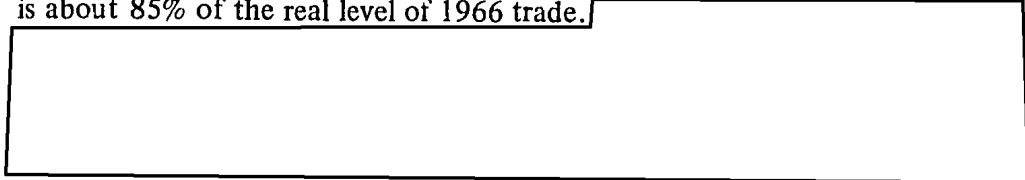
Million US \$



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Prospects

17. Under the most recent Sino-Soviet trade agreement, signed on 13 June 1972, trade for 1972 is to amount to 240 million rubles - \$265 million at the old ruble-dollar exchange rate or \$290 million at the new rate. This volume represents a 75% increase over 1971 in real terms and is about 85% of the real level of 1966 trade.



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18. With the return to higher levels of trade, many more of the commodities that were traded during 1966 are reappearing. For example, China for the first time in recent years will be importing large numbers of Soviet 5-ton trucks and a few 10-ton and 27-ton dump trucks, oil drilling equipment, power generating equipment, and timber. Chinese exports that are reappearing include substantial quantities of chicken eggs, salt, and canned pork.

19. The timber for pork exchange may be particularly significant. These items were tied together in a 1965 contract, and in 1966 the total value of the shipments both ways reached \$75 million. No known contract connects the two commodities at this time, and the value of the initial exchanges amounts to only a few million dollars. But the potential for very large exchanges in the near future is present - the USSR can use the food for its Siberian citizens, and the Chinese still are faced with meager forestry reserves coupled with a growing need for wood products.

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20. Other sizable Chinese purchases from the USSR planned for 1972-73 include \$35 million to \$75 million worth of new aircraft and as many as 11 turbogenerator sets totaling 1 million kw of power and valued at about \$50 million. A long-term agreement covering the turbogenerators was signed on 31 May 1972. In exchange, the Chinese will continue to sell more of the same consumer goods items, with the value of food and clothing increasing significantly again. Both sides will want trade to remain in balance.

21. For some time, China and the USSR have been negotiating a formal long-term trade agreement. The Chinese apparently have been difficult on such matters as the selection of commodities, delivery conditions, prices, and terms of guarantee. The Soviets seem more anxious than the Chinese to conclude a long-term agreement. One possible explanation for Peking's position is that competition for China's business is increasing.

22. Now that Sino-Soviet trade is being determined to a greater extent by economic considerations, the Soviets will have to compete for the Chinese business with all other industrial countries. The Soviets are no longer sole suppliers for many items, particularly now that the United States and many other countries are selling -- or trying to sell -- aircraft and other sophisticated equipment to China. Moreover, the Chinese are doggedly determined to increase their mastery of modern technology and to depend on the outside world only for the most advanced technology not available within China. As a result, the Soviet Union, which has notorious problems of its own in translating present-day technological advances into the production process, is not in a favorable position to meet the most important of China's future industrial needs. In short, Sino-Soviet trade after 1973 probably will continue to increase but at a much reduced rate.

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APPENDIX

Sino-Soviet Trade as a Portion of Total Chinese Trade^a

Year	Million US \$			Million US \$			Million US \$		
	Total Chinese Trade	Sino-Soviet Trade	Sino-Soviet Trade as a Percent of Total Chinese Trade	Total Chinese Exports	Chinese Exports to the USSR	Chinese Exports to the USSR as a Percent of Total Chinese Exports	Total Chinese Imports	Chinese Imports from the USSR	Chinese Imports from the USSR as a Percent of Total Chinese Imports
1950	1,210	325	26	620	190	31	590	135	23
1951	1,900	750	39	780	305	39	1,120	445	40
1952	1,890	965	51	875	415	47	1,015	550	54
1953	2,295	1,165	51	1,040	475	46	1,255	690	55
1954	2,350	1,279	54	1,060	550	52	1,290	720	56
1955	3,035	1,700	56	1,375	645	47	1,660	1,055	64
1956	3,120	1,460	47	1,635	745	46	1,485	715	48
1957	3,055	1,295	42	1,615	750	46	1,440	545	38
1958	3,765	1,515	40	1,940	880	45	1,825	635	35
1959	4,290	2,055	48	2,230	1,100	49	2,060	955	46
1960	3,990	1,665	42	1,960	850	43	2,030	815	40
1961	3,020	915	30	1,530	550	36	1,495	365	24
1962	2,675	750	28	1,525	515	34	1,150	235	20
1963	2,770	600	22	1,570	415	26	1,200	185	15
1964	3,220	450	14	1,750	315	18	1,470	135	9
1965	3,880	415	11	2,035	225	11	1,845	190	10
1966	4,245	320	8	2,210	145	7	2,035	175	9
1967	3,895	105	3	1,945	55	3	1,950	50	3
1968	3,765	95	3	1,945	35	2	1,820	60	3
1969	3,860	55	1	2,030	930	1	1,830	930	2
1970	4,220	45	1	2,045	20	1	2,175	25	1
1971	4,635	155	3	2,415	75	3	2,220	80	4

a. Rounded to the nearest \$5 million. Because of rounding, components may not add to the totals shown.

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