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Intelligence Report

China: Foreign Trade Retrenchment in 1975

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China: Foreign Trade Retrenchment in 1975

KEY FINDINGS

The worldwide economic recession is adversely affecting China's trade.

Record Deficit in 1974 - In 1974, Chinese imports - US \$7.4 billion - grew faster than exports - \$6.3 billion - leading to a \$1.5 billion deficit with the non-Communist countries and about \$1.1 billion overall. Inflation accounted for much of the increase in trade.

Balance-of-Payments Problems - Even with a greater use of supplier credits and short-term borrowings, China's balance of payments with the non-Communist countries plunged into the red. Peking had to draw down its reserves by \$300 million to finance the gap.


Trade to Level Off in 1975 - Weakened demand for Chinese exports and Peking's desire to redress its trade deficit will hold Chinese trade in 1975 to around last year's levels.

Export Stagnation - Recession will continue to hamper Chinese exports this year. On the basis of existing contracts, Chinese petroleum exports will double to about \$800 million; lower demand for China's traditional exports, particularly textiles and fibers, will offset most of the increase.

Imports to Be Trimmed - Import cuts will reduce China's trade deficit to about one-half of last year's level; imports of agricultural products will fall from the record \$1.9 billion in 1974 to about \$1.3 billion this year. Machinery and equipment imports, which more than doubled in 1974 to \$1.7 billion, will grow much more slowly in 1975. New orders for whole plants - \$1.2 billion in 1973 and \$900 million in 1974 - will probably decline sharply this year.

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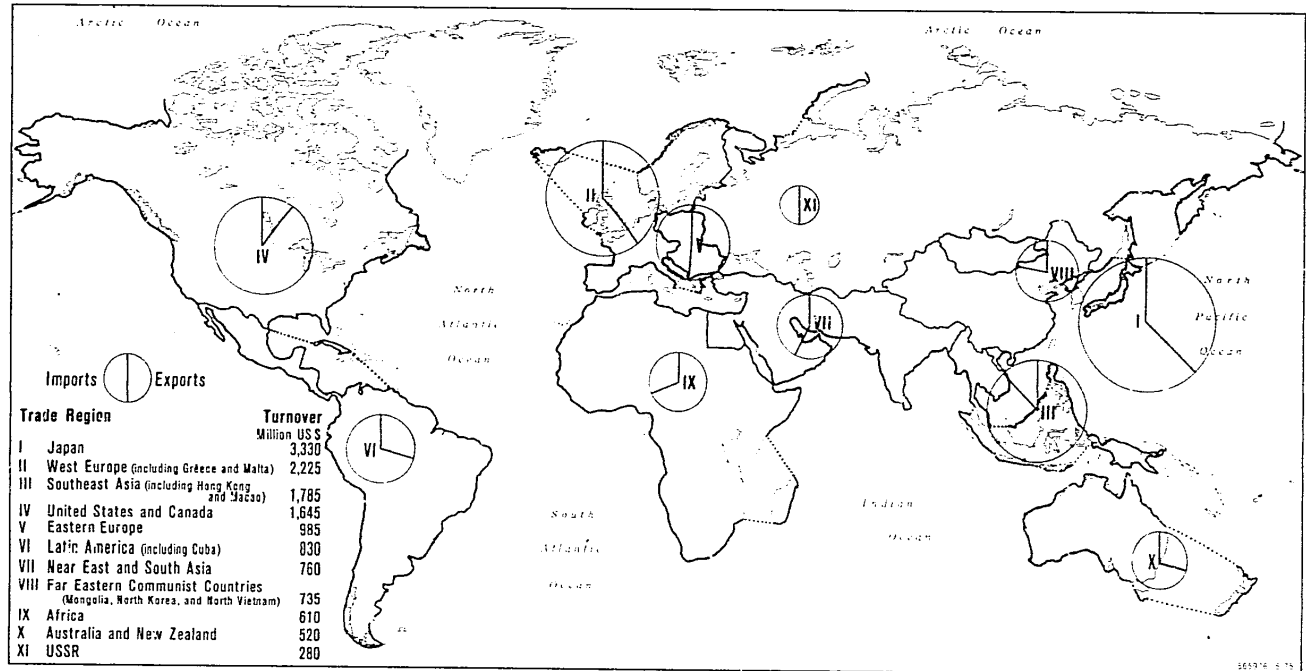
Note: Comments and queries regarding this report are welcomed. They may be directed to  of the Office of Economic Research,



July 1975

CHINA: Geographic Distribution of Trade, 1974

Figure 1



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DISCUSSION

1974 Trade in Perspective

1. China's trade boom fell victim in 1974 to world inflation and recession. Total trade increased by about 39%, to \$13.7 billion, well below the 67% increase in 1973. Most of the increase in 1974 was attributable to higher prices; growth in real terms was perhaps 10%. The tabulation shows the trend of Chinese trade, which has more than tripled in dollar value since 1970.

	Million US \$	Percent Increase
1970	4,290	11
1971	4,720	10
1972	5,920	25
1973	9,870	67
1974 ¹	13,700	39

1. Preliminary.

2. Worldwide inflation pushed up China's import bill while the economic slowdown in the West cut demand for Chinese exports, resulting in the largest trade deficit in China's history - about \$1.5 billion with the non-Communist world and, despite a surplus with the Communist world, about \$1.1 billion overall (see Figure 1 and Table 1). The share of the non-Communist countries in China's total trade was unchanged at about 83%.

Table 1
China: Trade, by Area and Country¹

	Million US \$							
	1973				1974 ²			
	Total	Exports	Imports	Balance	Total	Exports	Imports	Balance
Total	9,870	4,895	4,975	-80	13,705	6,305	7,400	-1,095
Non-Communist countries	8,170	3,900	4,270	-370	11,405	4,935	6,470	-1,535
Developed countries	5,260	1,805	3,455	-1,650	7,665	2,375	5,290	-2,915
Japan	2,020	925	1,095	-170	3,330	1,245	2,085	-840
Western Europe	1,690	665	1,025	-360	2,170	820	1,350	-530
United States	875	65	810	-745	1,070	115	955	-840
Canada	410	55	355	-300	575	60	515	-455
Australia and New Zealand	265	95	170	-75	520	135	385	-250
Less developed countries	2,075	1,270	805	465	2,810	1,650	1,160	490
Southeast Asia	825	660	165	495	855	660	195	465
Near East and South Asia	450	260	190	70	760	440	320	120
Africa	470	285	185	100	610	420	190	230
Latin America	300	45	255	-210	530	90	440	-350
Southern Europe ³	30	20	10	10	55	40	15	25
Hong Kong and Macao	835	825	10	5	930	910	20	890
Communist countries	1,700	995	705	290	2,300	1,370	930	440
F. + East	480	355	125	230	735	580	155	425
USSR	270	135	135	....	280	140	140	....
Eastern Europe	605	305	300	5	660	345	315	30
Albania	120	100	20	80	190	130	60	70
Yugoslavia	65	15	50	-35	135	25	110	-85
Cuba	160	85	75	10	300	150	150	....

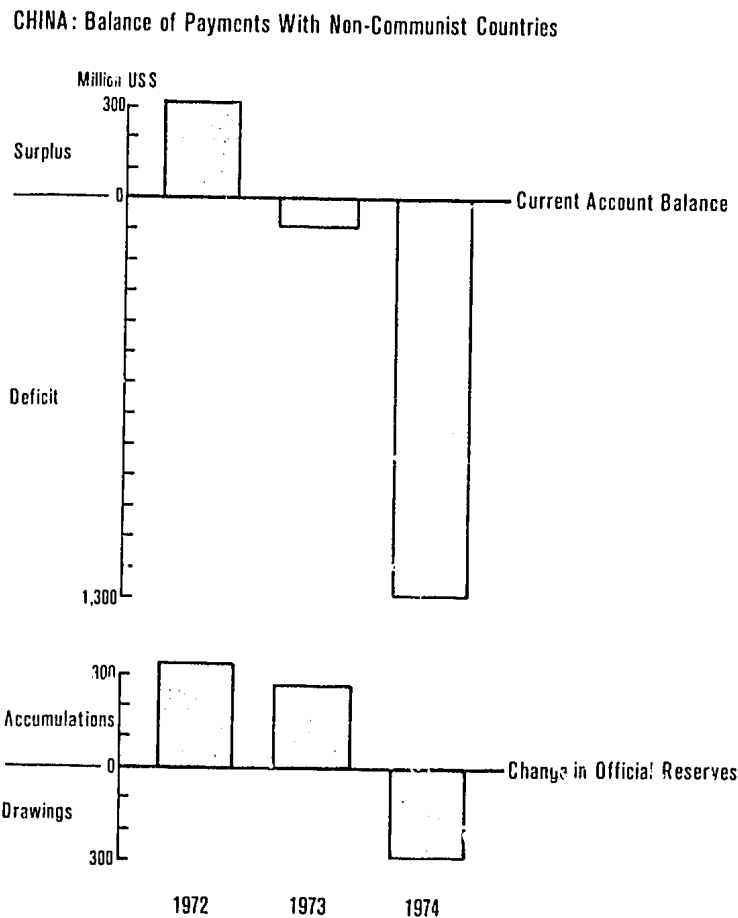
1. Data are rounded to the nearest \$5 million. The statistics are adjusted to show China's imports c.i.f. and exports f.o.b.
2. Preliminary.
3. Spain, Portugal, Malta, and Greece.

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Peking's Reaction to the Balance-of-Payments Deficit

3. Although a substantial trade deficit was expected, Peking probably did not anticipate the deterioration that took place in its balance of payments with the non-Communist countries in 1974. Even with the sharp increase in the use of credits and other short-term borrowing, financing the trade imbalance forced China to draw down its reserves by about \$300 million (see Figure 2 and Table 2).

Figure 2



- Trade on an f.o.b. basis showed a deficit of \$925 million.
- Hard currency outlays for transportation services totaled \$400 million.
- China made \$200 million worth of downpayments and payments for services under its whole plant import program and supplied \$70 million in economic aid to the less developed countries.

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China began taking measures to reduce its outlays. Contracts for agricultural products were postponed and canceled, short-term credits were obtained for purchases of Japanese steel and fertilizer, and interest rates were raised in the PRC's Hong Kong banks to attract increased deposits.

Agricultural Imports - Record Cost

5. Despite cancellations and postponements on several contracts for agricultural products, the value of China's agricultural imports in 1974 increased by about 46% over 1973 to \$1.9 billion, largely because of higher world prices. The following tabulation shows the value of the major agricultural imports for 1972-75:

	Million US \$			
	1972	1973	1974	1975 ¹
Total	845	1,325	1,940	1,325
Wheat and corn	345	840	1,145	675
Soybeans	195	50	155	....
Soybean and other oils	....	20	....	....
Cotton	195	335	390	200
Sugar	110	80	250	450

1. Projected.

6. Peking had contracted for almost 10 million metric tons of grain for 1974; shipping delays and contract cancellations reduced actual deliveries to only 7.0 million tons, down from 7.7 million tons in 1973. Higher prices and freight costs, however, pushed the value up to \$1.1 billion. With the fall in demand for Chinese textiles, China canceled contracts calling for delivery of US cotton in the second half of 1974 and by yearend had even begun to export some cotton. Skyrocketing world prices were the major factor in the tripling of the value of China's sugar imports in 1974.

7. Decreased volume and softening world prices will likely reduce China's agricultural import bill in 1975 back to the 1973 level. An improved harvest in 1974 has permitted China to reduce grain imports sharply from its traditional suppliers -- Canada, Australia, and Argentina -- to 4.4 million tons. Cotton purchases also are down sharply, and soybean imports have been phased out. Only sugar imports are expected to increase; if details on a 5-year contract with Australia are not worked out, however, they may be lower than predicted.

Great Leap in Machinery and Equipment Imports

8. China's imports of machinery and equipment doubled – from \$855 million in 1973 to \$1.7 billion in 1974 (see Table 3 and Figure 3), almost 25% of total Chinese imports. Deliveries on the \$1.2 billion in whole plant contracts signed in 1973 got under way during the year and totaled more than \$200 million. Even more important were shipments under the \$1.8 billion in 1972-73 contracts for aircraft, trucks, ships, dredgers, mining and oil drilling equipment, construction machinery, and other machinery and equipment. The non-Communist countries accounted for most of the increase, with China's machinery imports up two and one-half times the 1973 level to \$1.3 billion. Ships from Yugoslavia provided most of the increase from the Communist world.

Table 3

China: Commodity Composition of Trade¹

Commodity Group	Million US \$	
	1973	1974 ²
Total imports	4,975	7,400
Foodstuffs	1,000	1,480
Crude materials, fuels, and edible oils	985	1,110
Chemicals	445	740
Manufactures	2,505	4,000
Of which:		
Machinery and equipment	855	1,700
Metals	1,330	1,650
Other	40	70
Total exports	4,895	6,305
Foodstuffs	1,595	2,200
Crude materials, fuels, and edible oils	870	1,250
Chemicals	245	320
Manufactures	2,160	2,500
Other	25	35

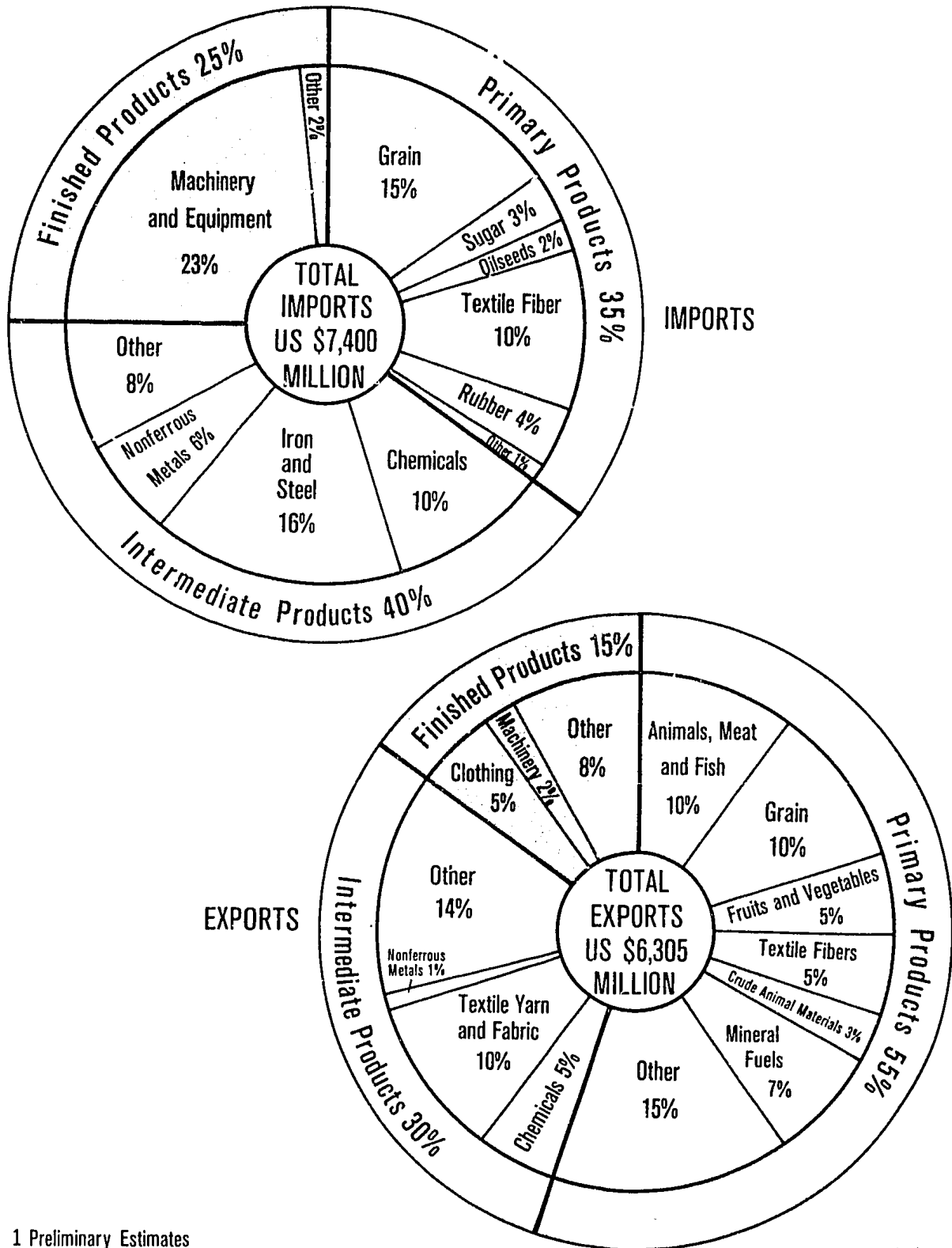
1. Data are rounded to the nearest \$5 million. The statistics were adjusted to show China's imports c.i.f. and exports f.o.b.

2. Preliminary.

9. Peking signed contracts for about \$900 million worth of whole plants in 1974. Rapid inflation and tight world credit, plus China's need for a breathing spell to absorb the large amount of technology already purchased, were the major reasons for the slowdown in purchases. Contracts worth \$550 million were for the Wu-han steel rolling complex, with the balance of the purchases going for

CHIA: Commodity Composition of Trade, 1974¹

Figure 3



1 Preliminary Estimates

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additional synthetic fiber, fertilizer, and electric power plants. New orders for machinery items and transport equipment in 1974 were off much more sharply than whole plant purchases.

10. China's machinery and equipment imports will grow more slowly in 1975. Much equipment is in the pipeline under contracts signed in the past few years. Equipment for the whole plants purchased in 1974 will be added to continuing shipments under 1973 contracts, and British and Soviet aircraft will be delivered in greater numbers. Such machinery as oil drilling and mining equipment will also be given priority, with less essential purchases being deferred to reduce import costs. New contracts for whole plants may decline further to save on downpayment outlays. For example, in the first four months of this year, Peking signed contracts worth only \$20 million for bearings plants, which was a radical scale-down of the \$100 million facility originally sought.

Export Drive Stalls

11. Peking's drive to boost export earnings ran afoul of the worldwide economic slowdown in 1974, causing Foreign Trade Minister Li Chiang to remark at one point that only rice and petroleum had good export prospects. While exports from China rose by about \$1.4 billion in 1974, almost 30% of the increase came from larger deliveries of petroleum at substantially higher prices. Sales of crude oil and petroleum products to non-Communist countries amounted to 4.4 million tons, worth \$416 million. Chinese rice exports benefited from high world rice prices, but the volume was down from the record 1.9 million tons in 1973. Other traditional Chinese exports, particularly silk and cotton textiles, faced declining demand. Late in the year, even petroleum exports met with problems when Japanese buyers, pleading full storage tanks, refused to take delivery of 900,000 tons of crude oil under a 1974 contract.

12. Both the spring and fall Canton Fairs in 1974 were commercially dismal events for China. Traders at the spring fair balked at the high prices for Chinese goods, and business fell 40% below the level of the 1973 fall fair to \$800 million. Price cuts on Chinese goods at the fall fair did not overcome depressed world demand, and total transactions fell to \$700 million, the lowest total in years. The poor sales at the fall fair will affect China's export performance through the first half of 1975.

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Outlook for 1975

13. Continuing recession in the non-Communist world, lower prices for some major export and import items, and Peking's desire to redress its trade deficit will hold the value of China's trade in 1975 to around the 1974 level -- \$13-\$14 billion. The trade deficit is likely to be reduced to about \$500 million -- one-half the 1974 level -- and the hard currency balance of payments is likely to be improved.

Export Stagnation

14. Barring a rapid turnaround in the world economy, Chinese exports this year will probably grow little over last year's level.

- Lower demand will cut sales of China's traditional exports, particularly silk fiber, textiles, and clothing.
- Soft world demand for rice will reduce China's export earnings.
- A doubling of petroleum exports to \$800 million may only offset the decline in other exports.

Sales at the Canton Fair, a major indicator of China's exports, point to lagging exports this year. Early reports from the 1975 spring fair show smaller attendance and slow business activity. Sales probably picked up toward the end of the fair, but probably not sufficiently to surpass the depressed level of the fair last fall.

Trimming the Import Bill

15. In the past, China has reacted to large trade deficits by cutting back imports the following year to bring trade back into balance. Use of credits will permit another trade deficit this year, but the size of the deficit will be reduced to ease the tight foreign exchange situation that cropped up late last year. Peking has already taken steps to trim imports in 1975 and will tailor its purchases during the year to match the fortunes of exports.

- Imports of agricultural products in 1975 have been cut by \$600 million from last year's level.
- Purchases of less essential machinery and equipment are being deferred.

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- China will benefit from lower world prices for steel and nonferrous metals while maintaining the volume of metals imports.

Virtually all of the cuts will be in imports from the non-Communist countries. Should export earnings fall below the 1974 level, Peking may clamp down harder on new purchases and postpone deliveries on some contracts.

Balance-of-Payments Recovery

16. Statements by the Chinese over the past year indicate that the overall payments balance with the non-Communist world, rather than simply the trade balance, has become the area of primary concern. Despite a deficit in 1974, China's balance of payments is not in crisis. Reserves are adequate, and Peking's credit rating is excellent. Credits for grain, whole plant equipment, and Japanese steel and fertilizer will finance much of the reduced trade deficit in 1975. Repayments of short-term credits and progress payments for whole plants will total more than \$1 billion this year. With continued large remittances from overseas Chinese and some bank borrowing, however, China may be able to avoid drawing down its reserves of gold and foreign exchange. One important sign of financial health is the net purchase of \$50 million worth of gold in the first four months of this year, compared with net sales of \$350 million in 1974.

Trade, by Country and Area

17. The following sections summarize recent trends in China's trade with major Communist and non-Communist partners and survey prospects for 1975.

The United States - After Rapid Growth, Prospects Down

18. The United States remained China's second largest trading partner as total trade broke through the \$1 billion mark in 1974.* Agricultural products accounted for most of the growth in Chinese imports - from \$810 million in 1973 to \$955 million in 1974. Although grain imports fell by 20% to about \$400 million, soybean and cotton imports rose by \$200 million. Chinese exports of \$115 million - predominantly consumer goods - nearly doubled the 1973 level.

19. The record \$840 million trade deficit partly explains China's desire to minimize agricultural imports from the United States in the last half of 1974 and its current low interest in US agricultural products. Other explanations include

* Sino-US trade data used in this report differ from data issued by the US Department of Commerce, which publishes all trade data on an f.o.b. basis. The figures used in this report have been adjusted to show China's imports c.i.f. and exports f.o.b.

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Peking's stated dissatisfaction with the quality of US wheat, corn, and soybeans and an improved domestic crop, which probably lowered total grain import requirements. Long-term arrangements for grain imports from Canada, Australia, and Argentina make the United States a residual supplier. China's recent decision to cancel or postpone deliveries of US cotton and to sell cotton on the world market stems from overbuying cotton at last year's high prices and from diminished foreign demand for Chinese cotton textiles. In 1975, agricultural imports from the United States -- primarily cotton -- probably will not exceed \$75 million.

20. Sino-US trade for 1975 is expected to fall to about \$400 million, of which \$250 million will be Chinese imports. Industrial imports will surpass agricultural imports for the first time as deliveries accelerate on equipment for eight Kellogg Company ammonia plants ordered in 1973. China will continue to import machine tools, construction equipment, paper, aluminum, and fertilizers. With US export controls off, Chinese imports of steel scrap will rebound.

21. China's exports to the United States could reach \$150 million in 1975. Chinese interest in the US market is growing at a moderate pace. In February a Chinatex delegation to the United States queried businessmen on current fashions, packaging and labeling requirements, pricing, and distribution channels and methods. Other market survey missions are expected later this year. Lack of "most-favored-nation" status and the problem of US private claims on China and of blocked Chinese assets in the United States continue to restrict the development of normal trading relations. Dramatic increases in Sino-US trade would not occur this year, even if steps were taken to settle these problems.

Japan - At the Top

22. Japan remained China's leading trade partner as total trade boomed to \$3.3 billion in 1974. China's imports nearly doubled -- from \$1.1 billion in 1973 to \$2.1 billion -- while exports rose by only one-third -- from \$0.9 billion to \$1.2 billion. The failure of exports to keep pace with imports resulted in a record \$840 million trade deficit with Japan -- five times the 1973 deficit.

23. During 1974, imports of whole industrial plants, machinery, and transportation equipment from Japan tripled to \$575 million. Although new plant orders were down in 1974, Peking signed eight contracts for more than \$400 million worth of whole plants -- the largest, a \$228 million steel rolling mill -- for delivery starting in 1975. Peking complained that negotiations for the plants faltered because of Japanese reluctance to quote fixed prices. Sharply rising prices -- and tight

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supply - also hampered imports of steel and fertilizer. Steel imports rose 40% in value but only 8% by volume, compared with 1973. Fertilizer imports, which rose 12% in value, actually fell 30% by volume.

24. China's traditional exports were sluggish, dampened by Japanese recession and import restrictions. Silk exports dropped to \$93 million, down \$100 million from 1973. Earnings from textiles, fruits, and vegetables also shrank. The entire increase in China's exports to Japan was provided by petroleum at prices four times the level of 1973. The flow of oil surged from 1 million tons in 1973 to 4 million tons in 1974. Oil earnings of \$390 million accounted for 31% of China's exports to Japan in 1974, up from 3% in 1973. Exports of 8 million tons of crude oil, worth almost \$700 million, are expected in 1975.

25. In 1975, Sino-Japanese trade could approach \$4 billion. China's imports are likely to remain about \$2.1 billion as deliveries of machinery and equipment level off. With world steel prices down, decreased expenditures on steel will probably offset a \$100-\$200 million increase in China's fertilizer bill. Oil should push up China's exports to around \$1.7 billion, cutting China's trade deficit with Japan in half. If the Japanese economy recovers and Tokyo relaxes restrictions on silk, the gap would narrow still further.

Western Europe - Source of Machinery

26. China's trade with Western Europe increased by 28% in 1974 to \$2.2 billion. A \$325 million increase in imports to \$1.4 billion led to a trade imbalance of \$530 million, more than 45% larger than China's deficit with this area in 1973. Western Europe will remain a major source of metals, machinery, and high-technology equipment in 1975. In May of this year, the European Economic Community (EC) commissioner for external relations visited Peking for talks on development of EC-China ties in light of the EC's new authority to establish a common commercial policy for members and to negotiate trade agreements with state trading nations. China agreed to establish diplomatic relations with the EC -- the first Communist country aside from Yugoslavia to do so - and announced that it is ready to negotiate a trade agreement with the Common Market. Such an agreement with the EC would have greater impact on political relations than on the volume of China's trade with the nine members of the EC, however.

West Germany

27. West Germany retained its position as China's leading trade partner in Western Europe as total trade climbed from \$487 million in 1973 to \$650 million

in 1974. Steel products made up 45% and machinery 30% of the \$482 million in Chinese imports. Chinese exports of \$168 million posted a \$38 million gain over 1973. In 1974, West German firms obtained contracts for whole plants worth nearly \$300 million, including contracts for a \$200 million cold steel rolling mill and a \$57 million continuous-casting mill as part of a steel complex at Wu-han, and a \$19 million vinyl-chloride plant and a \$15 million polyethylene plant as part of a petrochemical facility near Peking. Sino-West German trade will continue to expand in the next few years, spurred by deliveries on these major contracts.

United Kingdom

28. Although Sino-British trade rose slightly in terms of sterling, in dollar terms it fell from \$340 million in 1973 to \$329 million in 1974. China's exports rose nearly 33% to \$136 million. Chinese imports, however, dropped from \$258 million to \$193 million. China's purchases of nonferrous metals dwindled to \$15 million, down \$63 million from 1973, as China shifted copper purchases to Japan to take advantage of inventory clearance prices there. The British were unsuccessful in landing any contracts for whole plants and concluded contracts for only \$4 million worth of machinery and equipment in 1974. Nevertheless, deliveries of machinery and equipment on contracts signed in 1972 and 1973 reached \$93 million in 1974, and deliveries scheduled for 1975 and 1976 of Trident aircraft, coal mining equipment, and truck cranes amount to more than \$250 million. Shipment of this equipment, possibly coupled with increased copper purchases, will help boost Sino-British trade in 1975 to between \$450 and \$500 million.

France

29. With Sino-French trade up nearly 50% over 1973, France overtook Britain as China's second leading trade partner in Western Europe. China succeeded in increasing exports by 25% over 1973 to \$160 million, compensating for a fall in exports of textile fibers, yarns, and fabrics to one-third the 1973 level by boosting clothing exports from \$3 million in 1973 to about \$45 million in 1974. China's imports grew to \$188 million in 1974, partly because China purchased French wheat - worth roughly \$40 million - for the first time since 1970. Machinery and equipment accounted for \$80 million of China's imports in 1974 as deliveries began on 1973 contracts - totaling almost \$390 million - for two petrochemical complexes, off-highway trucks, Super Frelon helicopters, and oil exploration equipment. In 1974, French firms received additional orders for about \$200 million in whole plants and equipment, including a \$120 million fertilizer plant and a \$50 million thermal powerplant. Sino-French trade could approach \$500 million in 1975 as deliveries on these contracts accelerate.

Other West European Countries

30. In 1974, China's trade with other West European countries increased about one-third over 1973. Since February 1973, China has contracted for eight urea plants worth \$89 million and dredgers worth \$90 million from the Netherlands, an \$87 million thermal powerplant and a \$16 million polypropylene plant from Italy, a \$20 million offshore oil rig and a \$13 million catalyst plant from Denmark, \$30 million worth of plant and equipment from Sweden, and several ships from Norway. In 1974, with deliveries on these contracts beginning, China's imports from Norway, the Netherlands, and Italy jumped sharply, up 176% with Norway, 96% with the Netherlands, and 43% with Italy. Further increases are expected in 1975 as deliveries of this equipment expand.

Canada and Australia - Major Grain Suppliers

31. Canada was China's second largest grain supplier in 1974, after the United States. Wheat deliveries dropped from 2.5 million tons in 1973 to 1.9 million tons in 1974, but higher prices pushed the value up to \$400 million from \$245 million in 1973. Total imports of \$515 million in 1974 also included \$74 million worth of nickel, \$20 million of copper, and \$5 million of fertilizer. Chinese exports to Canada rose slightly, from \$55 million in 1973 to \$60 million in 1974. The \$455 million deficit with Canada is disappointing to the Chinese, who have sent two trade delegations to Canada for discussions on increasing Chinese exports in 1975. China has scheduled imports of about 1.7 million tons of wheat in 1975, part of which is a carryover from unfulfilled contracts in 1974. Lower prices this year will reduce the wheat bill to about \$270 million and help to narrow the trade gap.

32. Sino-Australian trade jumped to \$477 million in 1974, a \$230 million increase over 1973. Australian wheat deliveries mounted from 800,000 tons in 1973 to 1.4 million tons in 1974, more than doubling in value to \$175 million. In addition, China purchased \$50 million worth of Australian sugar. Total imports of \$356 million also included wool, iron ore, steel, and aluminum. China's exports increased from \$86 million in 1973 to \$121 million in 1974. Wheat deliveries in 1975 are expected to remain at last year's tonnage. China's imports of sugar and metals may increase. Troubles may arise for some trade items because Canberra has requested voluntary restraints on the export of textiles, and Peking appears ready to link its purchases of wool with the fortunes of Chinese textiles in Australia. Earlier this year, China shipped a small amount of crude oil to Australia for test purposes, but significant exports are not expected within the next year.

Hong Kong

33. Hard currency earnings from Hong Kong, which largely covered China's deficit with the developed West in previous years, posted only modest gains and offset only half of the \$2.9 billion trade deficit in 1974. Exports to and through Hong Kong increased 8% in 1974, compared with a 60% increase in 1973, and earned \$1.2 billion. (Exports to Hong Kong rose about 10% to \$873 million while re-exports through Hong Kong to third countries were virtually unchanged at \$313 million.) Hong Kong was also the channel for an estimated \$250 million in remittances from overseas Chinese and from PRC businesses in Hong Kong and for \$115 million in borrowings from PRC-controlled banks. China's imports were a mere \$20 million.

34. Higher prices accounted for the rise in value of Chinese exports in 1974. The volume of exports to Hong Kong actually declined 10% to 20% as recession struck the Crown Colony. Exports of textiles and clothing fell 38% in value -- to \$180 million in 1974 -- and possibly 60% in volume. This year, prices for China's traditional exports are likely to be lower. Unless the Hong Kong economy recovers substantially, hard currency earnings from Hong Kong may not grow in 1975.

Less Developed Countries (LDCs) - Major PRC Customers

35. Sino-LDC trade kept pace with the overall growth in China's trade in 1974, reaching \$2.8 billion, still about 20% of total Chinese trade. Foreign exchange earnings from LDCs lagged behind the leaping hard currency deficit with the developed West, however, as China's imports increased 45% against a 30% growth in exports. Chinese exports to Southeast Asia did not grow at all, mainly because of a cutback in demand for Chinese clothing and textiles. Trade with Latin America, the Near East, and South Asia grew most -- about 70% overall. Exports to Africa increased more than 45% while imports stood still.

36. Trade with the LDCs is likely to stagnate in 1975. High oil prices may force many LDCs to spend less for Chinese textiles. China's prospects for increased oil exports to the Philippines and Thailand are limited. China will probably cut back imports of cotton from the LDCs; lower prices for nonferrous metals will hold down costs of copper, zinc, and lead imports. Peking may also limit "political purchases" from the LDCs, such as bananas and crude oil.

*The Communist Countries - Secondary Role**The USSR*

37. After increasing sharply from 1970 to 1972, China's trade with the USSR leveled off. In 1974, two-way trade reached about \$280 million, a slight increase over 1973 trade of \$270 million but less than the 10% increase called for by the 1974 trade agreement. Aircraft, helicopters, steam turbine generators, trucks, steel products, and timber made up the bulk of Soviet exports to China last year. In exchange, China sent foodstuffs, light industrial goods, and nonferrous metals. The 1975 agreement calls for no change from 1974 in the level and commodity composition of trade.

Eastern Europe - Growing Smaller

38. Even though Sino-East European trade grew at an average rate of 14% from 1971 to 1974, Eastern Europe's share in China's trade fell from 9% to less than 5%. In spite of the diminishing role of this bilateral trade, an estimated 25% of China's imports of machinery and equipment in 1974 were supplied by Eastern Europe. In exchange, China exported light manufactures, foodstuffs, and metals. Trade agreements signed for 1975 point to a slower rate of growth in China's trade with Eastern Europe. Trade agreements with East Germany, Poland, and Czechoslovakia called for increases ranging between 5% and 10%. For East Germany, the target of 5% is a substantial reduction from the 40% increase in 1974. Trade agreements with other East European countries mention continued increases in trade without specifying the amount.

Yugoslavia - A Special Case

39. Yugoslavia is unique as the only Communist country that settles its trade account with the Chinese in hard currency. Following the first trade agreement in more than a decade in 1969, trade between the two countries doubled each year, reaching \$135 million in 1974. Trade heavily favors the Yugoslavs, with Yugoslav exports of \$110 million in 1974 -- primarily ships and metals -- and imports of only \$25 million -- mostly rice and soybeans. If Belgrade accepts a Chinese offer of a \$75 million interest-free credit for the extension of a railroad line to the Albanian border, trade will continue to expand and China's deficit with Yugoslavia will probably diminish.

Other Communist Countries

40. High world prices, particularly for rice and sugar, and increased economic aid to North Vietnam resulted in sharp increases in China's trade with the other Communist countries. In 1974, China's trade increased about 90% with North Vietnam and Cuba and 10% to 15% with North Korea and Mongolia. Because world prices for raw materials and agricultural commodities have fallen from 1974 peaks, the value of China's trade with these countries may decline in 1975. North Vietnam imported large quantities of Chinese grain last year; in 1975, North Vietnam probably will shift away from grain to purchases of Chinese machinery and fertilizer. In 1974, imports of Cuban sugar were 380,000 tons; this year China probably will import less than one-half last year's tonnage. North Korea imported about 750,000 tons of Chinese crude last year; with China's exports of crude oil expected to reach 1 million tons in 1975, further increases in Sino-North Korean trade are likely. Sino-Mongolian trade is small and will remain so -- perhaps \$5-\$10 million per year.