

# CHANGES IN MARKETS IN CHINESE FOREIGN TRADE AND THEIR BACKGROUND

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## I. THE CHARACTERISTICS OF CHINESE FOREIGN TRADE

The characteristic of the economy of New China is the fact that a large-scale programme of socialist industrialization is being pushed forward within a short space of time, setting out from the basis provided by the traditional backward economy. As a consequence, the basic characteristics of Chinese foreign trade have been constituted in response to this characteristic of the process of industrialization.

An indispensable condition for industrialization in underdeveloped countries, especially in the first stages of the process, is the systematic importation from the advanced industrialized countries of large quantities of plant, machinery, and technology which cannot be produced at home. Foreign trade is an economic instrument which can be used in obtaining materials for such industrialization with the greatest possible efficiency, and in reducing the time required in the process of industrialization and promoting its progress by introducing advanced plant and technology. This is the chief task of foreign trade in the economically underdeveloped countries. As subsidiary to this, there arises the question of expanding exports as much as possible in order to gain the means of making payment against imports of plant, machinery, and technology, and as a method which will make possible the importation of these goods.

Thus this situation obtained in the case of the foreign trade of the Soviet Union before the Second World War, especially during the period of socialist industrialization in the 1920's and 1930's, and the rôle of foreign trade in China at the present time also consists in the performance of this function. To express it in other words, the chief task of Chinese foreign trade consists in obtaining, under the most advantageous conditions possible, plant, machinery, and technology of a high technical standard in response to the necessities of a process of rapid industrialization. The Minister for Foreign Trade, Mr. Yeh Chichuang, has spoken of this question in the following terms:

“One of the basic duties of China's foreign trade is that of expand-

ing exports in a planned and positive manner, and exchanging them against mechanical equipment, industrial parts, raw materials, and other important goods required in construction carried out under the Five-Year Plan.”<sup>1</sup>

Again, a certain outline study of the subject published in China gives the following broad definition of the duties to be performed by China’s imports, from which it is clear that chief importance is accorded to the procurement of plant and machinery.

“The basic task of foreign trade in the economic field is that of co-operating in the rapid completion of socialist industrialization. On the import side this means the importation of goods of various kinds required in the development of heavy industry, and along with these the importation of a considerable amount of mechanical equipment required by transportation, light industry, and agriculture, scientific instruments, and chemical reagents required for scientific research, as well as a certain amount of consumer goods.”<sup>2</sup>

In his report made in September, 1956, Mr. Chou En-lai states that during the period of the First Five-Year Plan, “it was necessary to import from foreign countries 40% of the total machinery and equipment required.”<sup>3</sup> Again, according to another source, the degree of dependence on imports of machinery and equipment during the same period was 50%, and it is said that practically the whole of the demand for heavy complicated equipment was met by imports.<sup>4</sup>

In contrast to this situation obtaining in China, during the period of the First Five-Year Plan in the Soviet Union (1928–1932) imports of equipment amounted to 13–14% in general, and “imports of equipment were important for the Soviet Union in the period of industrialization, but in general they performed only a supplementary rôle.”<sup>5</sup> This fact enables us to understand that the tasks of Chinese foreign trade have been more concentrated on the importation of plant and machinery than in the case of the Soviet Union.

<sup>1</sup> Yeh Chi-chuang, “The Development of China’s Foreign Trade during the Period of the First Five-Year Plan,” in Ministry of Foreign Trade, *Collected Papers on Foreign Trade, Fourth Series*, Peking, Financial and Economic Publishing Company, 1958.

<sup>2</sup> *Основные сведения о внешней торговле Китая*, Москва, Внешторгиздат, 1961, стр. 40. (The original version of this book was compiled by the Chinese Ministry of Foreign Trade under the title of “An Outline Account of Foreign Trade.” The Soviet translation has been used because the original is not available.)

<sup>3</sup> *Documents of the Eighth National Delegate Conference of the Chinese Communist Party*, Peking, People’s Publishing Company, 1957, p. 128.

<sup>4</sup> Ю. Капелинский, *Развитие экономики и внешнеэкономических связей*, стр. 406.

<sup>5</sup> Ю. Капелинский, стр. 406.

In the light of the above facts we may say that China's foreign trade exhibits a typical pattern of response to the needs of a process of rapid industrialization in an underdeveloped country, and we may also say that, since the intentions mentioned above were carried out in a concentrated manner with a complete government monopoly of foreign trade under a socialist system, China's foreign trade assumed the classical pattern of socialist foreign trade policy as carried out in the Soviet Union.

China's foreign trade since the establishment of the People's Republic has been strongly pushed forward in accordance with the above basic tasks. In the past, China's foreign trade was carried on under colonial conditions. For this reason the figures for foreign trade remained static over the years and the balance of trade took the form of an overwhelming imports surplus, while a fair proportion of the goods dealt in consisted of consumption goods and luxury articles. However, since the establishment of the People's Republic foreign trade has been carried on under government monopoly and trade has been firmly subordinated to the industrialization of the country, with the result that it has assumed a completely new aspect. The following tables contain such statistics of China's foreign trade as have been officially published, and they show the increase which has taken place in foreign trade under these new conditions as well as the changes which have taken place in the commodity trade pattern.

Table 1 shows that after the establishment of the People's Republic the volume of foreign trade showed a steady increase along with the development of industrialization, and it also makes it clear that the overwhelmingly greater part of the imported goods consisted of instruments of production.

If, now, we examine the process of development of China's foreign trade up to the present day, we will be able to divide it roughly into three stages. The first stage covers the period from the establishment of the People's Republic up to about 1955. During this period the Chinese national economy had only just begun to carry out its plans for socialist industrialization, while in the field of foreign relations it was strongly restricted by the embargo policy of the West resulting from the Korean war, and throughout the period China was obliged to trade almost exclusively with the Soviet Union. The second stage covers the period between 1956 and 1959. During this stage the First Five-Year Plan was completed, and in 1958 the "great leap forward in production" was undertaken while in the international field there was a relaxation of tension and the embargo policy began to break down.

As a result, China acquired new possibilities of expanding trade with Japan and the countries of Western Europe and, from the economic point of view, was now in a position to choose markets more freely. The third stage covers the period between 1960 and the present. During this period economic difficulties were experienced as a result of

Table 1. THE DEVELOPMENT OF CHINA'S FOREIGN TRADE

(Unit: million yuan)

	Total Volume of Import and Export Trade	Exports	Imports	Balance
1950	4,150	2,172	1,987	185
1951	5,950	2,607	3,279	-672
1952	6,460	2,933	3,497	-564
1953	8,090	3,759	4,292	-533
1954	8,470	4,323	4,153	170
1955	10,980	5,256	5,683	-115
1956	10,870	5,568	5,297	312
1957	10,450	5,617	4,833	784
1958	12,870	7,170	5,763	1,407
1959	14,000	—	—	—

Source: State Statistical Bureau, *Ten Great Years*, Peking, Foreign Languages Press, 1960, p. 174. For 1959, *Экономика стран социалистического лагеря в цифрах, 1961*, Москва, Соцэкгиз, 1962, стр. 148.

The figures for imports and exports are given from the estimates in *Chugoku no Taigai Keizai Katsudō* (China's Economic Activities in Relation to Foreign Countries) compiled by the China Section of the Ministry of Foreign Affairs, Government of Japan, p. 5. Since these are estimates it is inevitable that their sum should not coincide with total trade figures.

Table 2. VOLUME OF IMPORT AND EXPORT TRADE BY CATEGORY (%)

	Imports (total=100)			Exports (total=100)	
	Capital Goods	Consumer Goods	Industrial and Mining Products	Processed Products of Agriculture & Subsidiary Occupations	Products of Agriculture & Subsidiary Occupations
1950	87.2	12.8	9.3	33.2	57.5
1951	83.1	16.9	14.0	31.4	54.6
1952	90.6	9.4	17.9	22.8	59.3
1953	93.0	7.0	18.4	25.9	55.7
1954	92.8	7.2	24.0	27.7	48.3
1955	94.5	5.5	25.5	28.4	46.1
1956	92.4	7.6	26.1	31.3	42.6
1957	92.7	7.3	28.4	31.5	40.1
1958	93.7	6.3	27.5	37.0	35.5

Source: State Statistical Bureau, *Ten Great Years*, Peking, Foreign Languages Press, 1960, p. 176.

the occurrence of natural disasters and other factors, and as a consequence there was a sudden fall in trade figures. At the same time a great change took place in the market structure of foreign trade as a result of the Sino-Soviet dispute and a larger proportion than hitherto was occupied by trade with Japan and the Western European countries.

In this way China's foreign trade has been consistently centred in the course of its development on the importation of plant, machinery, and other capital goods, and in the process of pursuing its tasks it has revealed many inherent contradictions, and it has followed through a process marked by a fair number of shifts and meanderings. The aim of this paper is to clarify the principal problems in this process, concentrating attention on the question of changes of markets.

## II. THE PATTERN OF FOREIGN TRADE IN THE PERIOD OF THE ALMOST EXCLUSIVE PREDOMINANCE OF TRADE WITH THE SOVIET UNION, AND ITS INHERENT CONTRADICTIONS

In the first period of China's economic construction, trade with the Soviet Union (and the other socialist countries) occupied an overwhelming proportion of foreign trade. The following table shows the proportion of foreign trade occupied by trade with the Soviet Union after the establishment of the People's Republic.

The Table shows that throughout the 1950's, trade with the Soviet Union occupied approximately 50% of all foreign trade, and that trade with socialist countries occupied approximately 75-80% of all foreign trade. This was the classical pattern of Chinese foreign trade throughout the 1950's.

The first of the reasons for this pattern being given a fixed form is to be found in the environment of international relations during the first period of Chinese economic construction. As we have already

**Table 3.** PROPORTION OF TRADE WITH SOCIALIST COUNTRIES IN CHINA'S FOREIGN TRADE (%)

	1950	1951	1952	1953	1954	1955	1956	1957	1958
Trade with Socialist Countries	33.48	63.28	78.08	75.49	80.00	82.10	75.00	77.90	74.60
With Soviet Union	30.89	48.72	57.34	56.39	50.00*	50.00*	53.00	50.00*	51.20
Trade with Capitalist Countries	66.52	36.72	21.92	24.51	20.00	17.90	25.00	22.10	25.40

Note: \*Approximate figures.

Source: Shigeru Ishikawa ed., *Chugoku Keizai Hatten no Tokei-teki Kenkyū -III-* (Statistical Studies of China's Economic Development -III-), Tokyo, Institute of Asian Economic Affairs, 1962, p. 131.

noted, China was pressed by the necessity for large-scale and systematic imports of plant, machinery, and technology before all else, in order to go forward with the industrialization of the country, but on the other hand a strict embargo policy was carried out by the capitalist countries under the conditions of the Korean war and the cold war which followed it. For these reasons China was obliged to make unilateral requests for the supply of capital goods to the Soviet Union and some of the socialist countries of Eastern Europe, as being industrialized advanced countries which shared the same social system as China, and this produced the trade pattern in which the Soviet Union occupied a strongly dominating position. In 1953 the then chairman of the Committee for Finance and Economics, Mr. Li Fu-ch'un, said, "If we had not had aid from the Soviet Union, the construction carried out under our First Five-Year Plan would not have been completed on such a scale and with such a speed, and we should have run into very great difficulties."<sup>1</sup> Again, another Chinese author states that the basic principle of Chinese foreign trade is to carry out "the policy of strengthening economic co-operation with the countries of the socialist camp, headed by the Soviet Union, and in regard to important mechanical equipment and other material goods to make requests principally to the Soviet Union and the other fraternal countries."<sup>2</sup> All these are expressions of the pattern of trade in which the Soviet Union occupied the predominant place.

At the same time, the overwhelming dependence on the Soviet Union which characterized China's foreign trade at this period was significant not only from the point of view of quantity, as is shown all the more clearly by the fact that over the years the proportion of complete plant in the plant and machinery imported from the Soviet Union increased more and more (See the following table). During the last period of the First Five-Year Plan imports of machinery occupied approximately 40-50% of total imports, while complete plant alone occupied as much as 30-40%.

Between the establishment of the People's Republic and the beginning of 1960 the number of projects for the construction of important industrial and mining enterprises which the Soviet Union promised to supply to China amounted to 291 units, and the total value of plant

<sup>1</sup> *New China Monthly*, No. 6, 1953, p. 6.

<sup>2</sup> Lu Shih-kuang and Huang Jun-t'ing, "The Role of China's Foreign Trade in the Period of the First Five-Year Plan," in Ministry of Foreign Trade, *Collected Papers on Foreign Trade, Fourth Series*, Peking, 1958, p. 147.

**Table 4.** PROPORTION OF IMPORTS FROM THE SOVIET UNION OCCUPIED BY MACHINERY AND PLANT, 1950-1959 (%)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Total Imports	100	100	100	100	100	100	100	100	100	100
Imports of Machinery & Plant	10.6	22.6	27.7	23.1	26.2	30.7	41.6	49.9	50.2	62.6
Of which:										
Imports of Complete Plant	0.2	6.8	6.6	7.1	12.3	18.9	29.6	38.4	26.2	41.9

Source: *Внешняя торговля СССР, статистический обзор*, Москва, Внешторгиздат, every respective years.

actually supplied during the same period is said by Soviet sources to have been 6,000,000,000 roubles (old currency) or \$1,500,000,000.<sup>1</sup> In the text of the Chinese First Five-Year Plan it is stated that "the construction of 156 units of enterprises by means of aid from the Soviet Union is the central part of the plans for industrial construction," showing how basic a significance imports of plant and machinery had for China's industrialization.

Among the enterprises which were imported in this way, or constructed by means of Soviet technical aid, the three great steel plants at An Shan, Wu Han and Pao T'ou, Ch'ang Ch'un Motor Works, the power stations at Feng Man, T'ai Yüan, Ch'ungk'ing and Hsi An, the Fu Hsin Coal Mine, the Feng Feng Coal Selecting Plant, the machine-tools manufacturing plants at Fan Yang, Wu Han and Chichihar, the Harbin Boiler and Turbine Plant, the ball-bearing factories at Lo Yang and Harbin, the tractor manufacturing plant at Lo Yang, the oil refining plant at Lan Chou and practically all the other important heavy industrial enterprises may be said to be included.

In the light of the above facts there is no doubt that the technical aid which accompanied large-scale imports of capital goods from the Soviet Union was one of the chief supports of Chinese industrialization in its earliest stage and that it produced a marked acceleration of the process of industrialization. China has been accustomed to pay for such imports of capital goods by exporting agricultural produce, processed foodstuffs, mineral ores, and other goods. Further, during the earliest stage of the process of industrialization the sources of goods for export were as yet not sufficiently developed in China, and as a consequence the balance of trade showed a deficit in each year up to 1955. In response to this situation, China contracted two long-term loans from the Soviet Union in 1950 and 1954 amounting to a total of \$430,000,000,

<sup>1</sup> Сладковский. "Советско-китайское экономическое сотрудничество," *Проблемы востоковедения*, 1960, № 3, стр. 111.

and with these funds the trade deficit was covered.

At all events, the above is the positive aspect of Sino-Soviet trade. However, as has been said, this was not wholly beneficial to China, and in recent times it has been becoming clear that there was a negative aspect in this Sino-Soviet trade. This fact is revealed in a concentrated manner by the rapid decline after 1960 of Sino-Soviet trade, which had been increasing from year to year, reaching its peak in 1959. In order to clarify this state of affairs we give trade figures showing the trend of Sino-Soviet trade since the establishment of the People's Republic of China.

As can be seen from the table, Sino-Soviet trade increased steadily up to 1959, but a change took place in 1960 and it has been consistently decreasing since that time up to the present. Taking the total exports and imports of 1959 as 100, these declined sharply to only 29.2 in 1963, and in particular the decline in imports was more marked than that in exports, declining in the course of the same period from 100 to 19.6. The decline in Sino-Soviet trade was not merely of quantitative significance but was also attended by a qualitative significance in that great changes took place in the content of the imports. We refer to the fact which we have mentioned above—that imports of complete plant had central significance in China's imports of goods from the Soviet Union. However, during this period, not only did the total value of imports decline, but the value of complete plant imported decreased markedly to an even greater degree. Thus, whereas in 1959 imports of complete plant were of the value of 359,790,000 roubles, amounting to the high proportion of 42.9% of total imports, in 1963 the value of imports was 1,110,000 roubles (taking 1959 as 100 the figures for 1963 represent only 3.7), amounting to only 7.8% of total imports. From the point of view of our contention that the basic task of China's foreign trade consisted in the procurement of basic capital goods centred on complete plant, it is no exaggeration to say that Sino-Soviet trade had now lost its substantial significance and continued to exist only in form.

Table 5. TREND OF SINO-SOVIET TRADE (Unit: million roubles)

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
Exports	427.7	521.1	579.2	687.8	664.3	793.1	990.3	763.3	496.3	464.7	371.7
Imports	628.4	684.0	673.5	659.7	489.7	570.6	859.1	735.4	330.6	210.1	168.5
Total	1056.1	1205.1	1252.7	1347.5	1154.0	1363.7	1849.4	1498.7	826.9	674.8	540.2
Balance	-200.7	-162.9	-94.3	28.1	174.6	222.5	131.2	27.9	165.7	254.6	203.2

Source: *Внешняя торговля СССР, статистический обзор*, Москва, Внешторгиздат, every respective years.



This great change in Sino-Soviet trade has some degree of direct connection with the following two causes. The first is the fact that Chinese agricultural production suffered a severe blow from natural disasters during the three years beginning in 1959, and in response to the economic difficulties which ensued China slowed down the tempo of industrialization and adopted the policy of temporarily cutting imports of capital goods to the minimum. The second cause was the aggravation of the "Sino-Soviet dispute," and according to the Chinese in 1960 the Soviet Union suddenly recalled 1,390 technicians from China, repudiated several hundreds of agreements and contracts, and stopped the supply of much important equipment and material goods.

Sino-Soviet trade may be regarded as having undergone a sudden decline as a direct result of these two causes. At the same time, however, we must not lose sight of a more important cause which lay in the background of this change. We must not fail to pay attention to the fact that it was at this period that the negative aspect of Sino-Soviet trade revealed itself. We have looked at the positive aspect of Sino-Soviet trade, at the great results achieved by China during the earliest stages of industrialization with the help of large-scale imports of important capital goods, principally from the Soviet Union. But we cannot ignore the fact that, on the other hand, there were negative factors in this trade. The first of these negative factors consisted in the fact that, since China had no alternative but to adopt a policy of trading almost exclusively with the Soviet Union because of the international situation at that time, China could not escape being subject to the great-power chauvinism of the Soviet Union, and in matters of foreign trade policy China could not command enough possibilities of making rational choices from the economic point of view. The second negative factor consisted, as is shown by the statement in a certain Chinese source<sup>1</sup> that "it must be pointed out that goods imported from the Soviet Union are priced much higher than the international prices," in the fact that the terms of trade were somewhat unfavourable to the Chinese side and in the fact that there were many defects in the plant and machinery supplied by the Soviet Union.

A fair number of attempts have been made to arrive at estimates of the latter of these two negative factors, and recently the party concerned, the Chinese themselves, have begun to disclose concrete facts in this matter. Below we will give a number of selected examples.

<sup>1</sup> Letter from the Central Committee of the Communist Party of China to the Central Committee of the Communist Party of the Soviet Union dated February 29, 1964.

As is well known, the number of projects for industrial and mining enterprises which the Soviet Union promised to supply to China during the period of the First Five-Year Plan was 156 items, but by the end of 1957 only 57 items had been completed, and by the end of 1960 only 113 out of the total of 291 items promised were in operation.<sup>1</sup> As a concrete example, the Lo Yang ball-bearing factory was one of the above-mentioned 156 items, and was to have been built by the supply of the main plant and machinery from the Soviet Union, but in the event none of the main machinery arrived and the quantities which were supplied amounted to only 45% of those stipulated in the contract. Such machinery as was supplied arrived after the stipulated dates of delivery, there were irrationalities in its design, and eight of the large bearing-polishing machines were always breaking down and their use had to be abandoned.<sup>2</sup> Construction at the Harbin Steam Turbine Factory was at first pressed forward with Soviet aid, but the result was that only 25,000 KW turbines were forthcoming.<sup>3</sup> Again, a certain source states that, according to a survey carried out by the First Ministry for Machine-Building Industry in 1954, it had been made clear that the greater part of the lathes imported from the Soviet Union in 1953-1954 had become unserviceable after short periods of use.<sup>4</sup>

Few concrete data are available as regards the prices of capital goods imported from the Soviet Union, but as an example we may cite the statement of the management of the above-mentioned Lo Yang ball-bearing factory. "The Soviet mechanical equipment is expensive. It would be cheaper to import the same machines from the capitalist countries."<sup>5</sup> Again, according to another source, it is considered usual for the prices of manufactured goods imported from the Soviet Union to be at least 30% higher than those of goods of the same type manufactured in China.<sup>6</sup> Again, in 1952 the Soviet Union sold several thousand tons of soybeans imported from China on the European market at £47 C & F, but at this time the soybeans which China was putting on the market through Hong Kong were selling at £53 and there was

<sup>1</sup> Chu-yuan Cheng, *Economic Relations between Peking and Moscow: 1949-63*, New York, Frederick A. Praeger, 1964, p. 93.

<sup>2</sup> Ryūzō Yamashita, "Rakuyō Bōru Bearingu Kōjō Kengakuki" (A Visit to the Lo Yang Ball-Bearing Factory), *Ajia Tsūshin*, November 1, 1963.

<sup>3</sup> "Yū Ryū-Kei Danwa Hikki" (Notes on a Conversation with Mr. Yung Lung-kwei), *Ajia Keizai Jūmpō*, Second Issue for October, 1963, pp. 13-14.

<sup>4</sup> Chu-yuan Cheng, p. 72.

<sup>5</sup> Ryūzō Yamashita, op. cit.

<sup>6</sup> Chu-yuan Cheng, p. 70.

approximately £10 difference between the two after allowing for freight charges, and this is taken to endorse the view that the Soviet Union was importing soybeans from China at prices considerably lower than those prevailing in the international market.<sup>1</sup>

Although the above data are fragmentary it is clear that over the whole field the terms of trade in Sino-Soviet trade were unfavourable to China at this period, and that this was due to the fact that China was not sufficiently able to make a rational selection of markets, being subject to the influence of the embargo from the part of the capitalist countries and other factors. This is the inherent contradiction in Chinese foreign trade during the period in which trade was conducted almost exclusively with the Soviet Union. In his study of economic relations between China and the Soviet Union, Chu-yuan Cheng says, "The unfavourable nature of China's trade terms with the Soviet Union seems to be an important underlying reason for the C. P. R.'s determination to challenge Soviet leadership of the international Communist movement, even at the risk of total suspension of Sino-Soviet trade."<sup>2</sup> This, however, would seem to be no more than a rather one-sided conclusion. Nevertheless, it is no mistake to say that this was one of the chief grounds for China turning to the capitalist countries for the important plant and machinery which were still required for China's industrialization.

### III. THE SWITCH OF MARKETS TO THE COUNTRIES OF WESTERN EUROPE AND ITS CONDITIONS

In the process of the development of China's foreign trade the first beginnings of a desire to move towards a greater degree of rationality in the selection of markets by escaping from the inherent contradictions of the almost exclusive trade with the Soviet Union occurred roughly from 1956 to 1957. In the background, it need hardly be said, lay a certain degree of relaxation of tension in the international situation. As is well known, the Korean war was the occasion for a strict embargo being imposed on China by COCOM and CHINCOM, but after 1956 the attitudes of the various powers gradually relaxed and in 1957 the restrictions imposed by CHINCOM virtually fell into desuetude. In 1957 the restrictions imposed by COCOM were also relaxed in great measure. These conditions provided China with new possibilities of expanding trade

<sup>1</sup> Chu-yuan Cheng, p. 70.

<sup>2</sup> Chu-yuan Cheng, p. 72.

with the countries of Western Europe. We give below statistics showing the trend of the figures for trade with Western European countries from the establishment of the People's Republic up to recent times.

A factor which further promoted this change in the direction of trade, which took place in 1956 and 1957, was the fact that positive responses to the relaxation of import restrictions were made from the Chinese side. We may take it that, at this time China made positive attempts to switch import markets for a certain range of capital goods which either could not be fully supplied by the socialist countries or whose quality, prices, or other conditions were considered undesirable, and began to make efforts to import these from Western European countries.

In 1955 the head of the Ministry of Foreign Trade, Mr. Yeh Chi-chuang had made the following statement: "Until now, the factory

**Table 6.** TREND OF FIGURES FOR TRADE WITH TWELVE WESTERN EUROPEAN COUNTRIES AND THEIR PERCENTAGE OF TOTAL FOREIGN TRADE

(Unit: million dollars)

	Exports	Imports	Total	Balance	Total Chinese Foreign Trade	Proportion occupied by Trade with Twelve Western European Countries (%)
1952	57.6	43.5	101.1	14.1	1840	5.5
1953	125.6	95.4	221.0	30.2	2340	9.4
1954	99.8	83.0	182.8	16.8	2390	7.7
1955	119.1	99.1	218.2	20.0	3060	7.1
1956	189.5	161.5	351.0	-28.0	3150	11.1
1957	152.0	233.4	385.4	-81.4	2870	13.4
1958	185.9	460.3	646.2	-274.4	3740	17.3
1959	219.7	409.6	629.3	-189.9	4200	15.0
1960	250.4	365.2	615.6	-114.8	3808	16.2
1961	208.0	177.6	385.6	30.4	2660	14.5
1962	185.5	148.0	333.5	37.5	2363	14.1
1963	189.9	162.0	351.9	27.9	—	—

Note: The twelve Western European countries are Austria, Belgium and Luxemburg, Denmark, Finland, France, Italy, Netherlands, Norway, Sweden, Switzerland, U. K., and West Germany.

Sources: For 1952-1960, the *UN Yearbook of International Trade Statistics*. For 1961-1963 the *China Trade Report*, November, 1964, has been used. The figures for total Chinese foreign trade between 1952 and 1958 as given in Chinese official publications are divided into those for trade with socialist countries and trade with capitalist countries. The former are converted at the rate of 1 yüan=1 rouble (old currency)=\$0.25, and the latter at the rate of 1 yüan=\$0.43. The figures in the Table are the sum of these. The figures for 1959 and thereafter have been taken from the reports of the China Association, England.

equipment required for the construction of our country has been brought from the Soviet Union. However, we will purchase the products of the Western countries provided that quality, type, price, and other conditions are suitable. We have a large demand for metals, machinery, scientific instruments, petroleum oils, rolling stock, shipping, required in general industry and transportation, and a number of articles of daily use."<sup>1</sup> We may regard these words as indicating China's strong interest in making a more rational choice of markets from the economic point of view.

At the time of the Geneva Conference in 1954 a delegation centred on the deputy head of the Chinese Ministry of Foreign Trade, Mr. Lei Jen-min, had been in contact with industrial circles in England. In April, 1957, an economic and technical delegation headed by Mr. Chi Ch'ao-ting, the deputy chairman of the Committee for the Promotion of International Trade, visited West Germany. In 1958 a technical delegation led by Mr. Yü Kuang-sheng, the Minister for Railways, visited France. These were all new developments marking the switch in the direction of trade.

Under these circumstances, the articles which came to be imported into China from this time from the Western European market were steel goods such as plate and sheet, steel pipes, silicon steel sheet, tin-plate, galvanized plate and railway lines, machinery such as mining and building machinery, machine tools, electrical machinery, and transport machinery, chemical industry products such as chemical fertilizers, dyes, plastics and synthetic rubber, and copper products, principally copper wire.

Among these articles the switch in markets appeared in its most typical form in the case of imports of steel products. If we take the sum of imports of steel from the Soviet Union and from Western Europe as 100 and compare the percentages occupied by the two sources of import, we will find that in 1956 the former stood at 86% and the latter at 15%, but that in 1958 the former stood at 26.5% and the latter at 73.5%, so that the positions of the Soviet Union and Western Europe were completely reversed. We would probably do well to note that the imports from Western Europe were concentrated on sheet steel, tin-plate, special steel and other products which may be supposed to have been of higher quality than those produced in the Soviet Union.

The tendency to incline towards Western Europe as a market appeared decisively after China entered the post-1960 stage. It is of

<sup>1</sup> Yeh Chi-chuang, "Let Us Make Efforts for the Development of an International and Normal Trade," in Ministry of Foreign Trade, *Collected Papers on Foreign Trade, Second Series*, Peking, Financial and Economic Publishing Company, 1956, p. 11.

course true that this stage was one during which a sudden decline took place in China's total foreign trade, so that the situation presents a somewhat complicated aspect. As we show in Table 7 below, a great change took place in the regional pattern of China's foreign trade after 1960. Thus, in 1960 the socialist countries occupied 61% of foreign trade and the capitalist countries 39%, with the socialist countries in the dominant position, but in 1961 and thereafter this relation was reversed and trade with the capitalist countries assumed the dominant position, and this dominant position has been developing over the years.

These changes in the regional pattern of Chinese foreign trade indicate a great change in the character of Chinese foreign trade. We should bear in mind that during the 1950's it was usual for approximately 50% of Chinese foreign trade to be occupied by trade with the Soviet Union (or 75-80% if we include the other socialist countries), while in contrast trade with the capitalist countries occupied only 20-25%. The switch of markets which occurred after the beginning of the 1960's means that this classical pattern of trade inherited from the past had begun to change.

The significance of the decisive change which has taken place in the 1960's is not confined to the quantitative aspects of trade which we have examined above. In the period of the first steps towards switching markets, in 1957 and 1958, important capital goods required in industrialization were imported from Western Europe, but these imports did not go beyond basic materials and individual machines, and there was not a single case of the importation of complete plant. It was only in the 1960's that a series of orders for complete plant, centred on chemical fertilizers, chemical fibres and oil refining, were placed one after the other with the countries of Western Europe and Japan. In contrast to this, there occurred the sharp fall in imports of complete plant from the Soviet Union which we have noted above. Recent Chinese contracts for the importation of complete plant are shown in the following table.

**Table 7. RECENT CHANGES IN THE COMPOSITION OF CHINESE MARKETS**

	(Unit: million US\$)			
	1959	1960	1961	1962
Trade with Socialist Countries (%)	2856 (68)	2338 (61)	1246 (47)	980 (41)
Trade with Capitalist Countries (%)	1344 (32)	1470 (39)	1414 (53)	1383 (59)
Total (%)	4200 (100)	3808 (100)	2660 (100)	2363 (100)

Source: The China Association, *Annual Report*, 1962, 1963, and 1964 Edition, London.

There is another important development which lies in the background of the switch of the sources of importation of capital goods, centred on complete plant, to Western Europe and Japan. This is the change which came about in the content of the demand for capital goods as an accompaniment to the development of China's industrialization in recent years. The pattern of China's industrialization has changed greatly since the Second Five-Year Plan (1958-1962) and particularly since passing through the process of the natural disasters and recovery from them. As is well known, during the First Five-Year Plan (1953-1957) the Soviet pattern of industrialization, in which priority was given to heavy industry, particularly the metallurgical industries, was pursued. But as a result of self-examination as to the one-sided character of this form of industrialization and the lessons of the damage inflicted by natural disasters, renewed recognition has been given to the importance of agriculture in the period of the Second Five-Year Plan and thereafter, and, as is well known, a new pattern of industrialization has been brought forward which "takes agriculture for its basis, and industry for its leader." As a result, increased atten-

**Table 8.** RECENT CHINESE CONTRACTS FOR THE IMPORTATION OF PLANT

Plant	Country	Makers
Vynylon Plant	Japan	Kurashiki Rayon Co., Ltd.
Vynylon Plant	Japan	Nichibo Co., Ltd.
Ammonia Plant	U. K.	Humphreys and Glasgow
Polyethylene Plant	U. K.	I. C. I. Ltd.
Polypropylene Plant	U. K.	Vickers Co.
Urea Plant	Netherlands	Stork-Werkspool
Urea Plant (under negotiation)	Netherlands	
Palm Oil Plant	Netherlands	Stork-Werkspool
Chemical Fertilizer Plant	Italy	Montecatini
Chemical Fertilizer Plant	Italy	Montecatini
Oil Refinery Plant	Italy	Snam-Progetti
Alcohol Plant	France	Melle and Speichim
Butanol-octyl-alcohol Plant	France	
Oil Cracking Plant	West Germany	Lurgi
Steel Tubing Plant (under negotiation)	West Germany	Mannesmann
Oxygen Plant	Austria	
Steel Mill	Austria	
Paper-making Plant	Sweden	
Foam Concrete Equipment	Sweden	

Note: In May, 1965, the contract with Nichibo Co., Ltd. for vynylon plant was cancelled.

Source: Survey made by the Sino-Japanese Import and Export Association.

tion has been given to those departments of the heavy industrial sector which are tied up with the modernization of agricultural production, in particular the advanced chemical industry centred on chemical fertilizers, chemical fibres, and oil refining, the agricultural machinery manufacturing industry which produces tractors, combine harvesters and other agricultural machinery, and the departments of industry which support these industries—the metallurgical industries, the energy-producing industries, the high-grade machine industry, and the electronics industry. It would therefore be natural that these departments of industry should figure prominently in the demand for imports of plant machinery and technology from foreign countries. Taking the example of the metallurgical industries we find that formerly large-scale building steel was in demand, but that the demand for ordinary steel can now be met by domestic production and the demand for foreign imports of steel is now for superior-quality steel, special steel, sheet, etc.

In the modern developments which have taken place in the chemical industries the levels attained by the Soviet Union are relatively backward, and under conditions in which the Soviet Union itself is importing advanced chemical plant from the West we may say that it is more rational and more profitable for the demand for the capital goods required by China's new line in industrialization to be satisfied by imports from the Western European countries and Japan rather than from the socialist countries. We can regard this factor as being another important background development promoting a switch of markets in China's foreign trade.

#### IV. SUMMARY AND CONCLUSIONS

It goes without saying that a marked switch in China's import markets for important capital goods such as plant and machinery has the important significance which we have attached to it above. The fact means that China's foreign trade would appear to be about to move in the direction of a fluid trade in response to the conditions of Western Europe and Japan, and away from the fixed pattern of trade in which the Soviet Union occupied the predominant position. Pauline Lewin has expressed similar views in a recent work.

“The changes in the composition of imports implied by the new economic policy are nothing compared with the revolution that is taking place in the sources of supply as a result of the Sino-Soviet conflict. China's leaders appear to have been cured once and for all of their early



belief that the U.S.S.R. and its satellites could provide most of what was required from abroad on the most advantageous terms obtainable, and to have accepted the fact that foreign trade is best conducted on a world-wide scale, with due weight accorded to commercial considerations. This does not mean that China's trade with the Communist Bloc will shrivel away to nothing or that politics will no longer play any part in foreign trade; but, for the time being, China's leaders are concerned to organise the country's international trade in such a way that it will make the maximum contribution to internal growth, even if this means jettisoning some cherished ideological theories."<sup>1</sup>

It goes without saying that, since the principle of giving prior place to political factors in China's foreign trade is being consistently maintained at present, the last phrase in the quotation from Lewin's book is lacking in assertability. Nevertheless, it is a characteristic of China's foreign trade at present that, within the conditions prescribed choices which are rational from the economic point of view are being made as far as is possible, and that China will be able to continue to do so in the future.

We must now go one step further, and consider the meaning of imports of plant at the present stage in relation to the process of development of the Chinese economy as a whole. China's economy has been obliged to remain fairly static as a result of natural disasters and years of severe difficulties. At the same time, however, a number of important achievements have been made in developing China's industrialization in the process of overcoming these difficulties and restoring the efficiency of the economy. The most notable achievement of this kind would appear to be the progress towards self-sufficiency and freedom from dependence on foreign imports which is taking place in the production of plant and machinery. According to one source, in 1957 the Chinese machine industry was capable of satisfying only 55% of domestic demand, but by 1964 this figure had been raised to more than 90%.<sup>2</sup> Recent reports have made it clear that China can produce within its own borders chemical fertilizer plants with an annual capacity of 100,000 tons, urea plants producing 40,000 tons, hydro-electricity generating equipment with an output of 100,000 KW, 12,000 ton hydraulic presses, steel producing plant with an annual capacity of 1,500,000 tons, and modern oil refining plant. Again, in the field of chemical fibres it has been reported that, in parallel with vinylon plant

<sup>1</sup> Pauline Lewin, *The Foreign Trade of Communist China*, New York, Frederick A. Praeger, 1964, p. 91.

<sup>2</sup> New China News Agency Report (December 26, 1964), *Ajia Tsushin*, January 9, 1965.

imported from Japan, a vinylon plant designed and produced in China went into partial production last April in advance of the Japanese plant.<sup>1</sup> In connection with this situation it may be supposed that statements to the effect that "China's machine tool production has left the stage of imitation and has entered the stage of independent design"<sup>2</sup> are not necessarily exaggerated.

Consequently, it is probably not correct to regard the demand for imports of plant and machinery as possessing at the present stage of China's foreign trade the necessary character of absolute indispensability which it possessed in the 1950's. It would seem to be more proper to regard imports of plant as possessing more significance for China's industrialization in the functions of shortening the process of technical innovation and economizing in costs.

*The People's Daily* comments as follows on the starting of production at the Chinese vinylon plant to which we have referred above: "This great technical achievement bespeaks the fact that it is the principle of 'self-reliance' (*tzuli kengsheng*) which is the most reliable way in developing scientific technology. At the same time we must learn from the advanced experience of foreign countries, and absorb superior technology."<sup>3</sup>

These words reveal the basic attitude which is considered suitable to the new stage of economic development, a stage during which present-day China intends on the one hand to raise the level of industrialization at home with the help of the slogan '*tzuli kengsheng*' and on the other to make positive efforts to adopt the achievements of the advanced industrial technology of foreign countries. In doing so we may suppose that, in contrast to the situation prevailing in the 1950's, China will find it easier than before to obtain necessary plant, machinery, and technology from foreign countries in a selective manner and under more profitable conditions. Such a change in the conditions existing on the part of the Chinese economy, combined with the existence of fierce market competition among the countries of Western Europe and Japan, will probably have the effect of making the terms of trade more favourable for the Chinese side.

It appears that the national economy of China, after at length breaking free from the severe economic difficulties into which it fell in 1960 and subsequently, has returned to the path of steady economic

1 New China News Agency Report (May 4, 1965), *Ajia Tsūshin*, May 7, 1965.

2 China Newspaper Company Report (February 18, 1965), *Ajia Tsūshin*, March 1, 1965.

3 *The People's Daily*, May 5, 1965.

growth. According to Mr. Chou En-lai's report of December, 1964, industrial production in 1964 showed an increase of 15%, while the plans for the present year (1965) envisaged an 11% increase in industrial production and a 5% increase in agricultural production. It is also intended to begin work in earnest on the Third Five-Year Plan during 1965. We have ample grounds for supposing that, in response to the demands of this process China's foreign trade will again increase, centring on imports of plant required in the new development of industrialization.

In certain quarters<sup>1</sup> the view is held that, in the absence of foreign aid, the scale of imports in China's foreign trade will be determined by the ability to export, and that unless there are particularly good harvests it will be difficult for China to regain the levels of exports attained in the peak period in the 1950's, and that consequently the recent orders for plant from Western Europe and Japan will more or less represent the high-water mark of Chinese imports, while imports of machinery will also be made in a fairly selective manner.

As we have seen above, it is impossible for there to be as high a degree of dependence on foreign imports of plant and machinery as in the past, considering the circumstances of the present stage of development in China, and in this sense it is probably quite correct to say that imports will be made in a selective manner. But even so, if the scale of industrialization is expanded and accelerated it is probable that the demand for plant and machinery will rise to a fairly high absolute level, and in view of China's purchasing power it will be a mistake to underestimate this point.

The repayment of loans from the Soviet Union at the rate of approximately \$400,000,000 per year was completed in 1964. It is also probable that the grain imports valued at approximately \$500,000,000 or more which have been continuing for several years will shortly be greatly reduced. In the 1956-1957 period China was importing complete plant to a value of approximately \$200,000,000 per annum from the Soviet Union alone, and without contracting any loans. Consequently, China's foreign trade may be expected, along with the restoration of the domestic economy and while founding the basic line of policy on the principle of *tzuli kengsheng*, to involve the continued importation of fairly large quantities of important capital goods such as plant and machinery from the countries of Western Europe, and, by so doing, to undergo further development.

<sup>1</sup> Pauline Lewin, pp. 88-90.