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3 December 1957

INTELLIGENCE ADVISORY COMMITTEE

EIC Report on "Communist China's Imports and Exports, 1956: Trade and Transport Involved"

(EIC-R1-S6)

The attached report by the Economic Intelligence Committee (EIC) will be placed on the agenda of an early IAC meeting for approval [redacted] 25X1

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Secretary

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ECONOMIC INTELLIGENCE REPORT

COMMUNIST CHINA'S IMPORTS AND EXPORTS, 1956:

TRADE AND TRANSPORT INVOLVED

EIC-R1-S6

Approved by EIC Working Group
15 November 1957

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COMMUNIST CHINA'S IMPORTS AND EXPORTS, 1956: TRADE AND TRANSPORT INVOLVED*

I. Summary of Major Developments During 1956 and Prospects for 1957.

A. Level of Trade.

The foreign trade of China** in 1956 was announced as 10.9 billion yuan (approximately US $4.4 billion***), compared with 11 billion yuan in 1955, marking the first year in which China's trade has declined. The decline was on the import side and reflects a sharp reduction of receipts under Soviet loans. (See Figure 1.****)

A further decline in trade is planned for 1957, with total trade expected to be 9,955 million yuan (slightly more than $4 billion), or 8.4 percent less than in 1956. For the first time, exports will decline. This further decline in trade reflects the economic maladjustments resulting from the overambitious economic activity of 1956 and the effects of typhoons and floods on the agricultural production of China. Despite this decline the foreign trade goal of the First Five Year Plan (1953-57) is expected to be overfulfilled by 6.4 percent by the end of 1957.

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* Appendix A (see p. A-1) presents the revised estimates of value and direction of China's foreign trade for the years covered by the previous studies published in this series (EIC-R1 through EIC-R1-S5), as well as a discussion of the problems involved in the conversion of yuan values to dollar equivalents.

** Unless otherwise specified, the terms China and Chinese are used hereafter in this report to mean Communist China and Communist Chinese.

*** All dollar values in this report are in terms of US dollars or equivalents.

**** Following p. S-1.

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Figure 1
[To be inserted later]

Foreign Trade of Communist China*
1950-56

Data for inclusion in figure follow: Million US $

	1950	1951	1952	1953	1954	1955	1956
Total trade	1,300	2,650	3,100	3,300	3,450	4,485	4,415
Imports	665	1,565	1,795	1,880	1,795	2,465	2,150
Exports	635	1,085	1,305	1,420	1,655	2,020	2,265
Trade with:							
Bloc	435	1,680	2,420	2,490	2,780	3,675	3,325
Non-Bloc	865	970	680	810	670	810	1,090

[To be in the form of a bar chart with one bar for "Total Trade" divided into Bloc and non-Bloc, and separate bars showing total imports and exports.]

* Data for 1950-55 do not necessarily agree with that previously published since they reflect revisions based on later data.

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Trade with the Free World in 1956 rose by more than one-third and accounted for almost one-fourth of China's total trade, compared with less than one-fifth in 1955. Unrecorded imports fell slightly from $76 million in 1955 to $66 million in 1956, largely as a result of the increased use of the CHINCOM exceptions procedures. The amounts licensed under these procedures in 1956 were approximately $82 million, compared with a total of about $15 million for the preceding 4 years. By mid-1957 the UK, followed by most other CHINCOM countries, had abolished the China differential, applying COCOM trade control rules to the entire Sino-Soviet Bloc, thereby largely nullifying the importance of the exceptions procedures.

Trade with the USSR declined about 15 percent, and trade with the Far Eastern Satellites fell slightly -- together offsetting an estimated 13-percent increase in trade with the European Satellites. A further shift in the direction of trade toward the Free World is expected in 1957.

In 1956, China achieved for the first time an export surplus, which amounted to about $115 million and which consisted of a $90-million surplus with the Free World and a $25-million surplus with the Bloc.

The balance-of-payments position of China appears to have deteriorated in 1956 and 1957, reflecting in large part the sharp reduction of receipts under Soviet loans, the increasing commitments for the repayment of previous Soviet loans, and the further extension of China's

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own aid program. Despite the development of an export surplus in 1956 and 1957, it appears that China has been hard-pressed to meet its foreign exchange commitments and has had to reduce its holdings of foreign exchange and gold as well as to obtain short-term credits from the USSR.

B. Volume of Trade and Transport Services.

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Railroads continued to carry approximately 95 percent of China's overland foreign trade. The opening of the Trans-Mongolian Railroad on 1 January 1956, in offering the shortest route between the European USSR and central and south China, diverted a considerable volume of traffic from that portion of the Trans-Siberian Railroad line connecting with the Chinese system at Otpor. Nearly two-fifths of the 1956 Sino-Soviet rail freight moved on the Trans-Mongolian Railroad, more than two-fifths moved through Otpor, and approximately one-fifth moved through Grodekovo. The substantial restoration of railroads and roads in North Vietnam facilitated

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the movement and distribution of an increasing amount of aid from China. An important although relatively small amount (approximately 3 percent) of overland trade was transported by river between China and the USSR.

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* Following p. S-4.

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C. Impact of the Closure of the Suez Canal.

The closure of the Suez Canal in late 1956 had a slight depressive effect on China's foreign trade, although it is difficult to isolate and measure this effect because of its coincidence with other factors affecting trade. Increased shipping costs as a result of the diversion of trade either by sea around the Cape of Good Hope or by land over the Trans-Siberian Railroad may well have encouraged China to defer some nonessential imports and exports. A scarcity of shipping following the closure of the Suez Canal restricted trade in certain bulky items such as exports of iron ore and coal, and imports of fertilizer from Western Europe.

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II. International Trade and Balance of Payments.

A. Total Trade and Balance of Payments.

1. Level and Direction of Trade, 1955 and 1956.

The total foreign trade of China was slightly smaller in 1956 than in 1955 -- 10.9 billion yuan (approximately $4.4 billion) in 1956, compared with 11 billion yuan in 1955.* The decline was only on the import side and reflects a sharp reduction of receipts under Soviet loans. In commercial trade, both imports and exports continued to increase.

The most significant shift which occurred in the geographic distribution of the trade of China in 1956 (as shown in Table 1**) was in trade with the Free World. Rising by more than one-third in 1956, it accounted for almost one-fourth of the total trade of the country, compared with less than one-fifth in 1955. The largest gain was recorded in trade with Asian-African countries, which increased 39 percent, trade with other Free World countries increasing 29 percent. Trade with the Sino-Soviet Bloc, including aid-financed imports and exports, declined. It is

* The rate at which yuan are converted to US dollars for 1956 trade is 2.46 yuan to 1 US $, based on the yuan-sterling-dollar cross rate. Other currencies are converted to US dollar equivalents at official exchange rates except the Hong Kong dollar, as noted in footnote b, Table 4 (p. 13, below). The dollar equivalents of yuan values cannot be arrived at directly, because information on commodity prices and exchange rates involved in China's foreign trade is limited. A discussion of the problems involved in the conversion of yuan values to dollar equivalents is contained in Appendix A. It should be noted that yuan-dollar equivalents wherever utilized are only approximations and that these figures should be used with caution. The procedure for converting yuan values to dollar equivalents -- involving the use of yuan-sterling-dollar cross rates -- may well overstate the dollar value of China's trade with Soviet Bloc countries.

** Table 1 follows on p. 2.

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estimated that trade with the European Satellites increased about 13 percent, that trade with the Far Eastern Satellites declined slightly, and that trade with the USSR declined about 15 percent.

Table 1

Geographic Distribution of the Foreign Trade of Communist China, by Value
1955 and 1956

	1955 (Revised)		1956	
Trade with:	Million US $	Percent of Total	Million US $	Percent of Total
USSR	2,800	62.5	2,370	53.7
European Satellites	675	15.0	760	17.2
Far Eastern Satellites	200	4.5	195	4.4
Total Trade with the Bloc	3,675	82.0	3,325	75.3
Trade with the Free World	810	18.0	1,090	24.7
Total foreign trade	4,485	100.0	4,415	100.0

Recent Chinese announcements are consistent with the estimate of trade turnover in 1955* as published in EIC-R1-S5 but indicate a different geographic distribution of this trade. It is now estimated that in 1955 Soviet Bloc countries accounted for 82 percent of total trade turnover (rather than 80.5 percent) and that the USSR accounted for 62.5 percent (rather than 55.3 percent). The value of trade turnover with the Free World is estimated as 18 percent of the total (rather than 19.5 percent) and that

* On the other hand, these Chinese announcements indicate slightly different values of trade for 1950-54 from those in EIC-R1 publications (see Appendix A).

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of the European and Far Eastern Satellites as 19.5 percent (rather than 25.2 percent).

2. Balance of Trade.

China achieved a substantial export surplus in 1956, exports being 5 percent larger than imports. It was the first year in which China did not show a surplus of imports over exports. Imports were valued at 5,297 million yuan (about $2,150 million), and exports at 5,568 million yuan (about $2,265 million). The export surplus with the Free World, (based on indications of unrecorded and recorded trade) is estimated at approximately $90 million, and the export surplus with Bloc countries, therefore, amounts to $25 million, as shown in Table 2.

Table 2

Estimated Trade Balances of Communist China
1956

Million US $

	Imports (c.i.f.)	Exports (f.o.b.)	Balance
USSR	$1,220	$1,150	- 70
European Satellites	400	360	- 40
Far Eastern Satellites	30	165	+ 135
Total Bloc	1,650	1,675	+ 25
Free World	500	590	+ 90
Grand total	2,150	2,265	+ 115

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The development of the export surplus in 1956 followed the sharp decline in imports under Soviet loans and to some extent reflected the pressures for exports to meet China's increasing international commitments. The large export surplus with the Free World which arises primarily from trade with non-Communist Asia reflects a concerted effort to increase earnings of foreign exchange. The export surplus with Bloc countries reflects largely aid-financed shipments to the Far Eastern Satellites. A small import surplus with the European Satellites is believed to have resulted from Chinese payments for freight charges on imports. Thus the remaining $70 million represents an import surplus in trade with the USSR, arising in large part from utilization of $48 million of Soviet credits and from export restrictions placed on a few commodities in the latter part of 1956.

3. Balance of Payments.

The balance of payments of China, [redacted] 25X1C

25X1C [redacted] differs considerably from that of pre-Communist China. To cover import requirements, China has placed more reliance on commodity trade and less reliance on capital flows such as overseas remittances, foreign investments in China, and income from investments abroad.

The value of capital goods imported under loan agreements (all with the Bloc) was less than 4 percent of the value of total Chinese imports from 1950 through 1956. It is probable that the high rate of military imports was made possible through Soviet loans and/or grants. On the other hand,

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China has extended loans and grants to both Bloc and non-Bloc countries, so that in 1956, exports under such aid programs amounted to $164 million, or $116 million more than receipts from foreign loans.

The Chinese have claimed an excess of international receipts over payments during the period 1950 through 1954. In 1955 and 1956, despite favorable developments in commodity trade, China's balance-of-payments position appears to have deteriorated. An estimate of China's balance of payments, based on selected items only, indicated a slight deficit in 1955 totaling $46 million* and a larger deficit in 1956 totaling $173 million, as shown in Table 3.**

The Chinese recently released information on foreign credit receipts and the servicing of foreign indebtedness and on the extension of foreign aid. This information indicates increasing demands on China's holdings of foreign exchange. The data involved are shown in Part II,C, of Appendix A. Other Chinese receipts are believed to have declined. For example, remittances from overseas Chinese have been smaller as a result of growing dissatisfaction with the Chines regime and of weakening family ties. Foreign expenditure in China fell when Soviet troops withdrew from Port Arthur and Manchuria. Chinese expenditures abroad for diplomatic missions and education have increased.

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* It is believed that receipts from foreigners in China less corresponding expenditures by Chinese abroad might offset this $46-million deficit. The balance of payments, however, would still have deteriorated from the favorable balances reported for previous years.

** Table 3 follows on p. 6.

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Table 3

Estimated Balance of Payments of Communist China
1955-56

Million US $

	1955	1956
Payments		
Imports (c.i.f.)	-2,465	-2,150
Debt repayment	- 196	- 242
Foreign aid grants and loans	- 160	- 164
Total payments	-2,821	-2,556
Receipts		
Exports (f.o.b.)	2,020	2,265
Overseas remittances	80	70
Foreign credit receipts	675	48
Total receipts	2,775	2,383
Deficit, including errors and omissions a/	+ 46	+ 173

a. For example, this item includes known Chinese payments for which specific value estimates are not available, such as the cost of Chinese students studying in other Bloc countries, the cost of technical services received from the Bloc, the maintenance of diplomatic missions abroad, and the like, and Chinese receipts for similar expenditures by other countries in China. In addition, this item includes changes in holdings of foreign exchange.

As a result of these developments, China's holdings of foreign exchange and gold are believed to have decreased. Sterling balances in London were reduced sharply in 1956 and early 1957. Although it is possible that some of these balances were transferred to hidden accounts in Western Europe, it is probable that a large portion was transferred to Bloc countries in payment of obligations.

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B. Trade with the Bloc.

1. Trade with the USSR.

The value of Sino-Soviet trade during 1956 is estimated at $2,370 million, a decline of 15 percent from the peak trade of $2,800 million in 1955.* This decline is attributable to the sharp reduction in 1956 of Chinese imports financed by Soviet credits. Excluding such imports, there was an increase of almost 10 percent in 1956 trade over that of 1955.

It is estimated that China had an import surplus of $70 million in its trade with the USSR, with imports of $1,220 million and exports of $1,150 million. Official budget data indicate that repayment of the foreign debts of China amounted to $242 million in 1956 (believed to have been paid to the USSR) and that loan receipts were reported as only $48 million (probably Soviet loans). Although other Sino-Soviet transactions are unknown, it is believed that China had to draw upon foreign exchange holdings.

2. Trade with the European Satellites.

According to Chinese announcements, the European Satellites accounted for 17.2 percent of the total foreign trade of China in 1956, which indicates a trade turnover of $760 million.** This value is $85 million more than in 1955, an increase of 13 percent.

* The Soviet-announced ruble values of this trade indicate lower dollar values than the figures presented here, which are based on Chinese data expressed in yuan. See Appendix A, Part III, for discussion of the conversion problem involved.

** Data released by the European Satellites, however, suggest a total of only $540 million, approximately one-fourth lower than the Chinese announcements indicate. There are indications that the Chinese data overvalue, whereas the European Satellite data undervalue, Sino - European Satellite trade expressed in dollar equivalents. See Appendix A, Part III.

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Little information is available on the balances between imports and exports in Sino-Satellite trade. Chinese trade with each of the Satellite nations is planned to balance each year, and there is no indication that serious imbalances have developed in either direction. Accordingly it is estimated that imports and exports during 1956 were in approximate balance at about $360 million (f.o.b.) in each direction but that China would have incurred freight costs on imports of about $40 million.*

East Germany and Czechoslovakia were the principal European Satellite trading partners of Communist China in 1956, followed by Poland, Hungary, Bulgaria, Rumania and Albania. East Germany and Czechoslovakia together probably accounted for one-half of total Sino - European Satellite trade.

3. Trade with the Far Eastern Satellites.

It is estimated that the trade turnover of China with the Far Eastern Satellites in 1956 amounted to $195 million, of which Chinese aid deliveries to North Korea and North Vietnam accounted for about two-thirds. The estimated value of trade turnover with North Korea was $65 million, about $55 million of which consisted of aid-financed exports. The estimated value of trade turnover with North Vietnam increased to $95 million, about $75 million of which consisted of aid-financed exports.

* As Communist China has no merchant fleet in this trade, freight charges on imports carried in non-Bloc ships (and quite possibly on Bloc ships as well) would be paid in Western currencies. China, probably recording imports on a c.i.f. basis and exports f.o.b., presumably recorded trade with the European Satellites as $360 million of exports and $400 million of imports

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The estimated value of trade with the Mongolian Republic was $35 million, which probably included deliveries worth about $5 million under a $40-million program of Chinese aid to Mongolia, announced in 1956.

C. Trade with Non-Bloc Countries.

1. General.

The trade of China with the Free World in 1956 is estimated to have amounted to imports totaling approximately $470 million (c.i.f. Chinese ports) and exports totaling $555 million (f.o.b.).

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The estimate of total trade amounting to $1.02 billion represents 94 percent of the $1.09-billion figure for Chinese trade with Free World areas calculated from announcements made by the Chinese. The difference between the two figures falls well within the range of error to be expected in arriving at such a figure, given the problems involved in arriving at appropriate valuations of Free World trade and in converting yuan values to dollar equivalents.

2. Imports.

a. Recorded Imports.

The value of recorded Chinese imports from non-Bloc countries in 1956 rose sharply to $405 million, compared with $321 million in 1955, $273 million in 1954, and $279 million in 1953. Changes in Chinese imports from

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China's various trading partners are shown in Table 4.* The increase of $84 million in total imports during 1956 reflects in large part the greatly intensified use of the CHINCOM exceptions procedure,** particularly in the latter half of the year.

The value of recorded Chinese imports moving directly from Western Europe to Chinese ports increased by nearly 50 percent, almost all of the increase occurring in the second half of the year. As in 1955, this increase was partly offset by a decline in imports from Hong Kong.

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[redacted] Japan Ceylon, West Germany, and the UK -- imports from each of which were less than half those from Japan -- were close contenders for second place. The only major trading partners from whom imports were reduced during 1956 were Hong Kong, Pakistan, India, Burma, Brazil, and Finland. [redacted]

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* Table 4 follows on p. 11.

** For discussion of exceptions procedure, see p. 16, below.

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Table 4

Recorded Imports of Communist China from Free World Countries, by Value
1954-56 a/*

Thousand US $

Country	1954 Total	1955 Total	1956 First Half	1956 Second Half	1956 Total
Europe, Western Hemisphere, and South Africa b/					
Argentina	1,495	981	916	---	916
Austria	445	2,694	4,256	2,285	6,541
Belgium-Luxembourg	426	5,435	8,059	11,491	19,550
Brazil	2,938	4,672	3	683	686
Cuba	---	418	6	---	6
Denmark	185	56	549	1,684	2,233
Finland	3,390	14,606	3,270	5,289	8,559
France	8,379	6,438	8,634	9,141	17,775
West Germany	20,554	28,488	11,003	20,479	31,482
Greece	---	---	132	62	194
Italy	5,285	5,841	3,926	6,703	10,629
Mexico	N.A.	45	1,023	486	1,509
Netherlands	1,565	2,791	715	4,681	5,396
Norway	28	35	115	1,077	1,192
Portugal	N.A.	4	7	267	274
Sweden	632	1,546	889	3,361	4,250
Switzerland (c.i.f.)	4,085	10,568	3,072	7,555	10,627
Union of South Africa	N.A.	1,043	788	337	1,125
UK	18,170	22,756	11,216	17,047	28,263
Yugoslavia	N.A.	0	0	3,691	3,691
US	6 c/	3 c/	0	0	0
Canada	47	1,057	0	2,473	2,473
Plus 10-percent adjustment for c.i.f. (except Switzerland) d/	6,354	9,891	5,551	9,124	14,675
Subtotal	73,984	119,368	64,130	107,916	172,046

* Footnotes for Table 4 follow on p. 13.

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Table 4

Recorded Imports of Communist China from Free World Countries, by Value
1954-56 a/
(Continued)

Thousand US $

Country	1954 Total	1955 Total	Total First Half	Total Second Half	Total Total
Near East, Asia, and Oceania b/					
Australia	3,421	5,794	4,260	5,364	9,624
Burma e/	22	13,960	9,844	1,047	10,891
Ceylon	48,429	22,814	14,157	19,609	33,766
Egypt	11,389	23,081	16,846	8,544	25,390
Hong Kong	67,154	31,143	9,008	13,515	22,523
India f/	5,798	20,591	6,057	5,351	11,408
Indonesia	1,014	6,221	5,064	7,073	12,137
Japan	19,109	28,552	22,410	44,929	67,339
Malaya	6,561	4,031	774	6,837	7,611
New Zealand	50	266	114	298	412
Pakistan	26,189	34,525	5,880	10,840	16,720
Sudan	N.A.	812	2	2,493	2,495
Syria	N.A.	165	insig.	1,549	1,549
Plus 5-percent adjustment for c.i.f. d/	9,457	9,598	4,721	6,372	11,093
Subtotal	198,593	201,553	99,137	133,821	232,958
Total	272,577	320,921	163,267	241,737	405,004

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Table 4

Recorded Imports of Communist China from Free World Countries, by Value
1954-56 a/
(Continued)

a. These data are based on the official trade statistics of the Free World countries involved. Those data for 1955 which differ from the comparable EIC-R1-S5 figures reflect more up-to-date information.
b. Figures for imports from countries of Western Europe, the Western Hemisphere, and the Union of South Africa are based on the assumption of a 2-month voyage -- that is, they represent recorded exports of those countries to China during the 12 months ending 31 October in each year. With the exception of the import figures for Hong Kong and Japan, which represent exports for the periods indicated in the table, the figures for the countries of the Near East, Asia, and Oceania are based on the assumption of a 1-month voyage and represent recorded exports of those countries during the 12 months ending 30 November. All trade statistics were converted at the official exchange rates except Hong Kong figures, which were converted at an average rate of 1 HK $1 to US $0.1715 for 1955, US $0.1702 for the first half of 1956, and US $0.1625 for the second half of 1956.
c. Representing US shipments to China under exceptions procedures. These shipments consisted of an automobile and other goods for the diplomatic mission of a friendly country in 1954 and printed matter in 1955.
d. Most countries record imports in their official trade statistics on a c.i.f. basis (cost, insurance, and freight) and their exports on an f.o.b. basis (free on board, meaning the cost of the exports involved excluding insurance and freight). In utilizing the recorded exports of China's Free World trading partners -- reported on an f.o.b. basis -- to arrive at China's "recorded" imports on a c.i.f. basis, an allowance must be made for the insurance and freight charges, primarily the latter, involved in moving the goods to China. The adjustments indicated are average figures based on shipping costs and the general nature of the commodities shipped.
e. Trade through Burmese ports other than Rangoon is only partially reflected in these data.
f. Including imports into Tibet except for the second half of 1956.

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25X1

Table 5

The changing commodity composition of China's imports from the

25X1 Free World from 1950 to 1956 is shown [redacted] The changes in 1956 reflected both domestic economic developments and modifications in the operation of CHINCOM controls.** The reduced level of cotton imports was the result of a reduced demand following China's abundant cotton crop in 1955. The decline in imports of drugs was a continuation of a 3-year trend and reflected increasing domestic

25X1 production. Greater use of the exceptions procedure under CHINCOM permitted a

[redacted]

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sharp increase in imports of metals and machinery and other items. The increase in rubber imports represented increased shipments from Ceylon under the rice-rubber agreement with that country, as Ceylon made up a shortfall on the 1955 contract in addition to fulfilling the 1956 contract. There was an increase in imports of chemicals, consisting largely of fertilizer and industrial chemicals, as was the case in 1955.

25X1

Imports from Western Europe, Japan, and Hong Kong continued, as in the past, to consist chiefly of manufactured goods and chemical fertilizers. The only significant exceptions consisted of imports of wool tops from the UK and beet sugar from France. Of imports from Japan, machinery (especially textile machinery) and instruments accounted for 29 percent; chemical fertilizers, 21 percent; textile fabrics, 15 percent; and cement, 9 percent. Imports from Hong Kong showed a similar pattern: chemical fertilizers, 27 percent; machinery,

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instruments and equipment, 14 percent; iron and steel, 12 percent; and other manufactured goods of various kinds, 15 percent.

Imports from the other Free World countries of Asia and the Near East consisted almost entirely of agricultural products. Ceylon remained the primary source of rubber. Pakistan and Egypt shipped cotton. Burma supplies some rubber and cotton and was the major source of imported rice. China continued to obtain large quantities of wool from Australia and of coconut oil and sugar from Indonesia.

b. Use of the CHINCOM Exceptions Procedure.

A number of CHINCOM* countries during 1956 relaxed the application of trade controls against China in anticipation of a removal of the China differential and increasingly licensed their embargoed commodities for export to China under CHINCOM exceptions procedures. The US, however, continued to maintain its complete embargo on trade with China. These governments had been under considerable domestic pressure, both political and commercial, to revise, if not abolish, the China differential. In the course of 1955 a number of countries participating in CHINCOM began increasingly to reflect this dissatisfaction over the differential of controls toward China.

25X1

* CHINCOM, or the China Committee, is a working committee which coordinates controls on strategic trade with China. It is the counterpart of COCOM, or the Coordinating Committee, which is the working committee for trade controls as applied to the European Soviet Bloc. The two committees are subordinate to the Consultative Group (CG), in which the following countries participate (at the ministerial level): Belgium, Canada, Denmark, France, Greece, Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Turkey, the UK, and the US. The US maintains a complete embargo on trade with China.

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By resorting to exceptions procedures, trade with China by many CHINCOM countries in items on the control list began to increase. These procedures permit a participating country to license for export to China certain embargoed commodities under very special circumstances and when it believes that the commodity would not contribute to the military strength of China and would be used for civilian purposes. Depending on the particular procedure employed, the other participating countries were to be notified either before or after export licenses were granted for the goods in question.

In May 1956 the UK announced that "more use will be made of the exceptions procedure to permit reasonable exports in appropriate cases to China of goods which are not on the Soviet [Bloc] lists." Thereafter, greatly intensified use was made of the exceptions procedures. Cases presented to CHINCOM for licensing in the second half of 1956 were 2.4 times greater in value in the second half of 1956 than in the first half of the year, with the result that the value of these cases reached $82 million in 1956, compared with a total of about $15 million for the 4-year period 1952-55. It is apparent from the trade returns, however, that only about one-half of the licensed shipments were received in China in 1956, with the remainder presumably to arrive in 1957. The UK, West Germany, France, and Japan were the principal countries utilizing the exceptions procedures, as shown in Table 7.*

* Table 7 follows on p. 18.

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Table 7

Value of Exceptions on Notice to CHINCOM, by Country
1952-56

Thousand US $

Country	December 1952-53	1954	1955	1956 First Half	1956 Second Half	1956 Total	December 1952 - December 1956
UK a/	333	424	882	6,639	20,559	27,198	28,837
West Germany	1,210	1,146	1,235	3,294	12,870	16,164	19,755
Japan	0	454	5,450	4,041	6,155	10,196	16,100
France	20	0	1,743	5,853	9,371	15,224	16,987
Italy	0	453	5	2,858	5,932	8,790	9,248
Belgium	24	444	746	1,457	2,347	3,804	5,018
Others	26	159	97	61	540	601	883
Total	1,613	3,080	10,158	24,203	57,774	81,977	96,828

a. UK figures include overseas territories.

Two categories -- iron and steel products and motor vehicles and parts -- accounted for more than one-half of the value of the goods concerned. Iron and steel products increased from abut $5 million in 1955 to more than $25 million in 1956. Motor vehicles and equipment, which in 1955 amounted to only $13,000, totaled $15 million in 1956. Tinplate submissions rose sharply to almost $6 million, and submissions on excavators and cranes, which were nonexistent in 1955, amounted to more than $5 million. Other commodities which figured prominently were fishing vessels, bearings, metalworking machinery, and power equipment.

Although various CHINCOM countries continued to make use of the exceptions procedures in 1957, they became increasingly dissatisfied with the China trade control system. After protracted negotiations in

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CHINCOM, the UK on 30 May 1957 unilaterally announced that it would adopt the same lists for China as for the Soviet Bloc, thus practically eliminating the differential. In June, most of the other participating countries took similar action.

c. Unrecorded Imports.

The estimated value of unrecorded imports into China declined from 275,000 tons, valued at $76 million, in 1955 to almost 190,000 tons, valued at $65 million, in 1956, largely as a result of declining transshipments from Western Europe. These transshipments were, however, still the main source of unrecorded trade by value, [redacted] 25X1
The main source of unrecorded imports by volume was Southeast Asia, the tonnage involved rising [redacted] 25X1

[redacted] 25X1

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(1) Transshipments of Western Commodities Through Soviet Bloc Countries.

China was able to reduce its use of the circuitous transshipment route through the European Soviet Bloc in obtaining CHINCOM-controlled goods during 1956 as a result of greater use by Free World countries of the exceptions procedure. The volume of transshipments through Gdynia, Poland, in 1956 is, as a result, estimated to have declined two-thirds, compared with 1955, [redacted]

25X1

The value of unrecorded imports from Gdynia in 1956 is estimated at $40 million, compared with $60 million in 1955. Nonferrous metals and iron and steel accounted for almost all of these imports, both by value and by volume, [redacted]

25X1

[redacted]

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(2) Unrecorded Imports Through Hong Kong.

There continues to be [redacted] 25X1C smuggling from Hong Kong by small craft and overland to China, but the value of this trade in 1956 is estimated at $2 million. By tonnage, POL appears to be the chief strategic commodity involved in this movement. Hong Kong authorities seized more than 800 tons of POL products in 1956, almost one-third more than in 1955. Two unusually large shipments of diesel oil and lubricating oil accounted for the increase. [redacted] 25X1C

25X1C [redacted] smuggled cargoes included up to 4,500 tons of diesel oil and 10,000 tons of kerosine, with a combined value of $1.5 million.

(3) Unrecorded Imports from Macao.

There are no published official trade statistics on Macao's exports to China in 1956. Such exports were largely reexports of part of the goods imported from Hong Kong. Imports from Hong Kong amounted to $10 million in value and 66,000 tons in volume. It is estimated that, as a maximum, strategic commodities comprised one-fourth, by value, of these imports, of which a portion was transshipped to China. POL shipments, especially kerosine and diesel oil, were important in terms of volume. Macao's imports of POL from Hong Kong rose to almost $500,000 in 1956, of

25X1 which about $300,000 worth [redacted] is believed to have been transshipped to China. Other strategic commodities transshipped included copper tubes, ball bearings, auto parts, surveying instruments, and radio tubes. The total value of strategic commodities transshipped is estimated

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25X1 at $700,000 [redacted] In addition, official [redacted] 25X1C information from Macao indicated that exports of nonstrategic goods to China amounted to 4,500 tons valued at $1.3 million.

(4) Unrecorded Imports from Japan.

The existence of a large smuggling ring in Japan which dealt in diverting refined petroleum products to China was uncovered in 1956. Petroleum products arriving in Hong Kong were transshipped to Japan, offloaded, and then reexported, allegedly on consignment to Timor. The POL is believed, however, to have been unloaded by Japanese vessels in North China. Records

25X1 [redacted]

(5) Unrecorded Imports from Southeast Asia.

25X1 [redacted]

During 1956, [redacted] tons of rice were shipped from 25X1 Burma to Ceylon on Chinese account in partial fulfillment of the rice-rubber agreement between China and Ceylon. It is believed that the Chinese recorded the rice movement as an import from Burma as well as an export to Ceylon. 25X1

[redacted]

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3. Exports.

a. Recorded Exports.

The exports of China to Free World countries rose almost as sharply in 1956 as in 1955. Their value, adjusted to an f.o.b. basis from the trade statistics of the trading-partner countries of the Free World, was $544 million in 1956 compared with $423 million in 1955, $298 million in 1954, and $323 million in 1953. The rise in exports occurred in the first half of the year, and the higher level was maintained during the second half, as shown in Tables 10 and 11.*

Table 10

Distribution of Recorded Exports of Communist China to Free World Areas
1954-56

Million US $

Year	Western Europe, Western Hemisphere, and South Africa	Hong Kong	Japan	Asia, Near East, and Oceania	Total
1954					
First half	40	23	17	51	131
Second half	48	44	22	53	167
1955					
First half	61	48	38	59	206
Second half	60	59	39	59	217
1956					
First half	81	62	37	91	271
Second half	73	58	42	100	273

* Table 11 follows on p. 24.

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Table 11

Recorded Exports of Communist China
to Free World Countries, by Value
1954-56 a/*

Thousand US $

Country	1954 Total	1955 Total	1956 First Half	1956 Second Half	1956 Total
Europe, Western Hemisphere, and South Africa b/					
Austria	878	1,009	1,175	1,339	2,514
Belgium-Luxembourg	2,058	2,123	2,228	4,000	6,228
Canada	1,541	4,290	3,776	2,115	5,891
Colombia	311	31	N.A.	N.A.	N.A.
Denmark	30	195	1,158	298	1,456
Finland	2,953	3,583	952	1,823	2,775
France	8,972	12,002	8,390	7,466	15,856
West Germany	37,688	45,917	28,482	25,461	53,943
Italy	2,182	4,873	4,974	6,793	11,767
Mexico	354	288	400	230	630
Netherlands	6,306	8,524	6,482	5,103	11,585
Norway	2,439	2,554	1,006	954	1,960
Sweden	1,159	2,473	1,063	1,621	2,684
Switzerland	10,599	19,066	10,626	7,506	18,132
Union of South Africa	N.A.	1,023	445	417	862
UK	25,664	33,669	19,829	19,101	38,930
US	170	227	60	128	188
Yugoslavia	N.A.	6	3,466	1,637	5,103
Minus 15-percent adjustment for c.i.f. (except for the US and Canada) c/	-15,239	-20,600	-13,601	-12,562	-26,163
Subtotal	88,065	121,253	80,911	73,430	154,341

* Footnotes for Table 11 follow on p. 26.

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Table 11

Recorded Exports of Communist China
to Free World Countries, by Value
1954-56 a/
(Continued)

Thousand US $

Country	1954 Total	1955 Total	1956 First Half	1956 Second Half	1956 Total
Near East, Asia, and Oceania b/					
Aden	N.A.	667	284	297	581
Australia	3,878	4,710	1,996	2,343	4,339
Burma	306	4,522	9,748	4,791	14,539
Ceylon d/	32,260	16,871	7,751	18,941	26,692
Egypt	818	1,818	5,758	4,521	10,279
French West Africa	1,156	1,520	720	500	1,220
Ghana (Gold Coast)	N.A.	80	24	144	168
India	4,922	8,960	12,015	8,000	20,015
Indonesia	4,228	10,949	18,229	14,811	33,040
Japan	40,770	80,781	39,470	44,178	83,648
Macao	5,542	5,080	3,100	3,000	6,100
Malaya	29,108	38,570	20,788	24,960	45,748
Morocco	12,493	16,973	11,227	9,704	20,931
New Zealand	628	830	448	450	898
Pakistan	1,375	394	295	8,150	8,445
Philippines	945	400	30	30	60
Sudan	N.A.	70	8	299	307
Syria	N.A.	153	129	207	336
Taiwan	3,411	1,924	891	651	1,542
Thailand	N.A.	N.A.	4	10	14
Vietnam e/	8,381	9,165	1,463	2,680	4,143
Minus 5-percent adjustment for c.i.f. (except for the Philippines) c/	-7,464	-10,202	-6,717	-7,432	-14,149
Subtotal	142,757	194,235	127,661	141,235	268,896
Hong Kong f/	66,700	107,300	62,300	58,000	120,300
Total	297,522	422,788	270,872	272,665	543,537

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Table 11

Recorded Exports of Communist China
to Free World Countries, by Value
1954-56 a/
(Continued)

a. These data are based on the official trade statistics of the Free World countries involved. Those data for 1955 which differ from the comparable EIC-R1-S5 figures reflect more up-to-date information. Most countries report their imports by country of origin, so that a portion of their imports recorded as from "China" were actually purchased from intervening owners. Data are complete except for the following countries in the second half of 1956: Belgium-Luxembourg, French West Africa, India, Pakistan, the Philippines, and New Zealand. In these cases, estimates based on less than complete data have been entered in the table.

b. Figures for exports from countries of Western Europe, Western Hemisphere, and the Union of South Africa are based on the assumption of a 2-month voyage -- that is, they represent recorded imports of those countries from "China" for the 12 months ending 28 February in the following year. Figures for Hong Kong, Japan, Macao, Philippines, Taiwan, and Vietnam are recorded imports for the periods indicated in the table. Figures for the remaining countries are based on the assumption of a 1-month voyage and represent recorded imports for the 12 months ending 31 January.

c. Most countries record exports in their official trade statistics on an f.o.b. basis (free on board, meaning the cost of the exports involved excluding insurance and freight), and their imports on a c.i.f. basis (cost, insurance, and freight). In utilizing the recorded imports of the Free World trading partners of China -- reported on a c.i.f. basis -- to arrive at China's "recorded" exports on an f.o.b. basis, a deduction must be made for the insurance and freight charges, primarily the latter, involved in moving the goods to the importing country. The adjustments indicated are average figures based on shipping costs and the general nature of the commodities shipped.

d. Sugar imports from Taiwan amounting to $1.223 million were deduced from first-half 1954 imports from China as reported in Ceylon's trade statistics.

e. The data for 1954 are for "Indochina" and include trade with Vietnam, Laos, and Cambodia. January-May 1955 data are imports by North and South Vietnam. Beginning in June 1955, the figure represents imports by South Vietnam alone.

f. A deduction had been made from Hong Kong's recorded imports from China to eliminate duplication resulting from the fact that many countries (all listed countries except the UK, Belgium, Canada, Denmark, the Netherlands, Egypt, Australia, India, New Zealand, and the Philippines) record imports from Hong Kong of Chinese origin as imports from "China." Goods exported by China to Hong Kong and reexported by Hong Kong to these countries are recorded as imports from "China" both by Hong Kong and by the country of destination. The amount of this deduction for 1955 and 1956 follows:

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Table 11

Recorded Exports of Communist China
to Free World Countries, by Value
1954-56
(Continued)

(Footnote f/ continued) Million US $

	1955 Total	1956 First Half	1956 Second Half	1956 Total
Hong Kong's total imports from Communist China	154.2	87.8	85.1	172.9
Less: Estimated reexports recorded in import data of other countries as imports from China				
Taiwan	2.0	0.9	0.6	1.5
Japan	12.8	6.4	7.0	13.4
Malaya	12.9	6.6	8.3	14.9
Indonesia	2.4	2.1	2.7	4.8
Vietnam	3.2	1.5	1.8	3.3
Other	13.6	8.0	6.7	14.7
Total deduction	46.9	25.5	27.1	52.6
Hong Kong's retained imports from China plus reexports not recorded in import data of other countries as imports from China	107.3	62.3	58.0	120.3

Hong Kong figures were converted at an average rate of exchange of 1 HK $ to US $0.1715 for 1955, US $0.1702 for the first half of 1956, and US $0.1625 for the second half of 1956.

Although China again increased its exports to nearly all of its industrialized Free World trading partners in 1956 as in 1955, the most striking development in 1956 was the increase in exports to the underdeveloped countries of Asia and the Near East. This increase accounted for 60 percent

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of the total increase in the value of exports to Free World countries. Exports to underdeveloped areas, nevertheless, represented only 35 percent of Chinese total exports to the Free World, and exports to a number of nearby Asian countries remained negligible. China's only new trading partner of consequence was Yugoslavia.

Hong Kong continued to be important as a customer and broker for China's export trade in 1956. Goods valued at $173 million, nearly one-third of China's exports to the Free World, moved to or through Hong Kong, and of this amount an estimated $120 million worth (22 percent of Chinese exports to the Free World) was consumed in Hong Kong. The 2-year trend of increasing exports to Hong Kong was interrupted, however, during the second half of 1956, when such exports failed to rise above those of the first half. This change probably reflected an increase in direct trade between China and other Asian countries. In 1956, China's exports to Hong Kong (including goods reexported by Hong Kong) exceeded its imports by $150 million, yielding significant sterling earnings.

Exports to all Free World countries consisted, about 45 percent by value, of foodstuffs (including rice, other cereals, vegetable oil, eggs, fruit, vegetables, pulses, and tea); 30 percent were oilseeds and other agricultural raw materials (textile fibers, oils, hides and skins, tung oil, and miscellaneous crude materials); and 25 percent were other goods (mainly ores, minerals, and products of light industry). The growing

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ability of China to produce and market light manufactured goods was demonstrated by increased exports of such items as sewing machines, flashlight batteries, small radios, and sheet glass.

More than 40 percent by value of China's exports to Hong Kong were basic foodstuffs, chiefly for consumption in Hong Kong; 26 percent were Chinese specialty foods and products, primarily for reexport to Europe; and 30 percent were miscellaneous manufactures for local consumption and for reexport to Southeast Asia. Textiles accounted for a substantial portion of the manufacture -- $32 million, compared with less than $2 million in each of the 2 previous years -- despite a near cessation of exports of cotton yarn in the second half of 1956.

Japan was China's second best Free World customer, importing primarily foodstuffs and industrial raw materials.

b. Unrecorded Exports.

In addition to recorded exports [redacted] tons of Burmese rice, valued at $8.7 million, were purchased by the Chinese for shipment directly from Burma to Ceylon in partial fulfillment of the rice-rubber agreement between China and Ceylon.* 25X1

As in EIC-R1-S5, no allowance has been made in this report for exports of opium and other narcotics. It is estimated that earnings from such exports were not significant in the period under review.

* See p. 22, above.

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III. Volume of Trade and Transport Services.*

A. Total Trade.

The Chinese have released no details on the total volume of their foreign trade since 1954, but they have announced that more than one-half of their trade was carried by sea in 1955 and that one-half would be transported by sea in 1956. It is estimated [redacted] that about 8.7 million tons of Chinese imports and exports moved by sea in 1956. Accordingly, the volume of overland trade is also estimated at 8.7 million tons and the volume of the total trade of China at about 17.4 million tons in 1956. 25X1

It is noteworthy that although the value of Chinese trade with the USSR fell 15 percent from 1955 to 1956 [redacted] The fact that the value was higher and the volume lower in 1955 than in 1956 is explained primarily by the special loan in 1955, which did not contribute [redacted] to the volume of Chinese imports but added $620 million to the value, and partly by a shift in 1956 from the export of high-value commodities like pork to the export of low-value commodities like cement. 25X1 25X1 25X1

[redacted]

** The volume of Sino-Soviet trade in 1955 was estimated at 5.2 million tons in EIC-R1-S5. New information indicates that the trade in 1955 was larger and may have approached 6 million tons.

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In 1955, estimated overland imports were slightly greater by volume than seaborne imports, but in 1956 seaborne imports probably increased more rapidly than overland imports, largely as a result of a sharp increase in imports of cement and fertilizer. In the absence of more precise data, therefore, the volume of seaborne imports in 1956 has been set as approximately equal to overland imports, and consequently the volume of seaborne and of overland exports was also approximately equal.

B. Total Transport Services.

1. Shipping Service.

The year 1956 again witnessed an increase in the volume of merchant shipping engaged in trade with China. [redacted] 25X1 25X1

[redacted] 25X1

[redacted]

[redacted] 25X1

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25X1

a. External and Internal Arrangements for Movement of Foreign Trade.

All international rail shipments in the Sino-Soviet Bloc are governed by the multilateral "Agreement on International Railroad Freight Traffic" (SMGS) of 1954, which is intended to facilitate and stimulate Sino-Soviet Bloc foreign trade and overland transport relations. Shipments between Sino-Soviet Bloc countries which must transit a third country are subject to the rates and regulations contained in the Uniform Transit Tariff (UTT) which supplements this agreement. Freight rates for rail shipments between neighboring SMGS countries are determined by the individual tariff agreements in effect between those countries. When freight must transit thrid countries by railroad, however, transport charges for such transit are determined by rates contained in the UTT. The rates contained in the UTT are, as a rule, lower than the rates which formerly applied to transit traffic in the SMGS countries.

A reduction of transit freight rates brought about concurrently with the inclusion of Communist China, Mongolia, and North Korea in the SMGS and the UTT in 1954 provided significant reductions in the cost in international overland trade to these countries. New UTT rates issued in

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January 1956 lowered transport costs even further, although the changes were not great. Of the charges which China must pay on imports, reductions ranged from 11 to 33 percent of many of the important commodities which in the past few years have moved by rail. There were, however, no changes whatever on many other items. Sizable reductions in the UTT freight charges were also made on a number of commodities originated by China and destined for the European Satellites, but rates on rubber, silk, wool, tea, and the principal grains were not reduced.

On many items, rates in the 1956 UTT were still listed at the equivalent of from $110 to $160 per ton (payable in rubles) on movements to China from East Germany and Czechoslovakia. The new rate on fertilizer, although now only about $45 per ton for the same through movement, was more than twice the sea tariff, and apparently discounts were not customarily permitted for large bulk shipments. UTT rates do not decrease with increases in distance of shipments. In this respect the UTT differs from Soviet internal tariffs, which provide special rates over regular long-haul routes and which, on a kilometer basis, generally taper downward as the distance increases. Thus the UTT must be working out to the benefit of the country which provides long-haul service and to the detriment of those countries with returns on short hauls, where loading,

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overhead, and transfer costs cannot be absorbed by returns on many kilometers of movement. Because of the long haul through the USSR for trade between China and the European Satellites, these countries must find that the tariff favors the USSR.

b. Changes in Facilities for Movement of Foreign Trade.

(1) Railroads.

(a) USSR.

The appreciable increase in the capability of China to move foreign trade between the USSR and China which accompanied the opening of the Trans-Mongolian Railroad constituted the major development affecting Sino-Soviet transport connections in 1956. Although basically completed before the end of 1955, the line was not opened for through international traffic until January 1956. The Chinese reported that on the Chining-Erhlien section of the line the volume of traffic increased substantially each month during 1956. Improvements continued to be made in facilities on the line in 1956, and there are indications that the cost of transport was substantially reduced, even though the condition of the newly constructed roadbed has required that freight cars be lightly loaded. During 1956, China continued to improve the lower capacity rail lines

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approaching Chining in order to handle the increased amount of traffic flowing to and from the north. This work will no doubt be continued in 1957, if needed, as Chinese railroad investment plans call for increased emphasis on rehabilitation and expansion of existing facilities rather than on new line construction.

The transloading point on the Trans-Mongolian line is located at Chining, more than 200 miles inside China. This location permits the use of Soviet rolling stock in Chinese territory as far as Chining. The Peiping-Paotou line, which reportedly will be one of the first lines in China to be electrified during the Chinese Second Five Year Plan, joins the transloading point at Chining with the Chinese rail system. There is little information available about the facilities in use at Chining. It is probable, however, that the capacity to transload at Chining is nearly equal to the capacity of the Chinese rail lines serving Chining and that it will be increased in the future as the capacity of the connecting lines is increased to take advantage of the shortest rail link between the USSR and south and central China.

(b) North Vietnam.

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By early 1956 the transport system of North Vietnam, disorganized and severely damaged during the civil war, had been substantially restored and in some respects improved.

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distribution of increasing material aid from China. Capability of the Hanoi - Ping-hsiang line would be substantially increased if the line were converted from the present meter gauge to Chinese standard gauge. The use of Chinese equipment would then be possible as far south as Hanoi and would tend to offset any present limitation imposed by the small Viet Minh locomotive and rolling stock park and by transloading problems. No information is available to indicate that actual conversion of the line to standard gauge has been initiated.

Reopening of the railroad from Hanoi to Kunming in Yunnan will further enhance transport capability between North Vietnam and China. Reconstruction of the portion of the line between Hanoi and Lao Kay in North Vietnam was completed in 1956, and that portion of the line was opened to traffic before the end of the year. On the Chinese side of the border, [redacted] the probability that the connetion with the North Vietnam system will be made in 1958. Current reports indicate that the entire line will be meter gauge. Once the line is open to through traffic, it probably will be of more importance to China than to North Vietnam. Restoration of the section between Lao Kay and Kunming will facilitate the exploitation of Southwest China's mineral resources, which can then be transshipped through the port of Haiphong for water export or shipment to consuming centers in China instead of being hauled long distances overland.

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(2) Roads.

The capabilities of some of the roads connecting China with neighboring countries were improved during 1956. [redacted] 25X1 In November 1956 it was estimated that road connections between Hanoi and China were capable of carrying 60 percent more traffic than in 1955. The importance of road connections to foreign commerce between China and North Vietnam, however, has not been so critical since the restoration of the Hanoi - Ping-hsiang railroad in February 1955 and will be of even less importance after the opening of the entire Hanoi-Kunming railroad.

During 1956 the Burma Road remained the principal interior connection between China and Burma for the transport of foreign trade. [redacted] 25X1 In spite of these overland connections, most Sino-Burmese trade moved by sea.

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(3) Inland Waterways.

The use and capability of the Sungari River, the only significant waterway connection available for the foreign trade of China, remained unchanged during 1956. 25X1

(4) Air.

Significant developments in air transport in 1956 included, in addition to international flights to Burma and North Vietnam, the establishment of a jet aircraft service (flown by Aeroflot, the Soviet carrier) from Prague to Peiping via Moscow. Further expansion of civil air services between China and adjacent areas is also anticipated. Negotiations have been going on between India and China; Ceylon and Cambodia are seeking rights for their air carriers to fly to Canton; and there have been rumors of a Japanese Tokyo-Peiping-Moscow route.

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C. Overland Trade and Interior Transport Services.

1. Total Overland Trade

The total overland trade of China in 1956 is estimated at 8.7 million tons. Exports continued to account for the larger share, aggregating 5.75 million tons, compared with 2.95 million tons of imports. Virtually all Chinese overland trade in both directions was with the Bloc.

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3. Trade with the Bloc.

a. USSR.

The major portion of Sino-Soviet trade moves overland by rail. The USSR reported that rail transport, apparently during 1950-55, accounted for 81 to 85 percent of the volume of Sino-Soviet trade, river transport accounting for 0.1 to 3.5 percent and truck transport for 2 to 3 percent.* This pattern of transport was altered somewhat in 1956, as the share of truck traffic decreased and the share of river shipping and rail traffic increased. The estimated tonnage of rail freight moving between China and the USSR was about 6.1 million tons in 1956, comprising nearly 88 percent of the total tonnage of Sino-Soviet trade during the year.

* The remainder moved by sea. See p. 58, below.

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River traffic is estimated to have reached 275,000 tons, accounting for almost 4 percent of the total in 1956. Truck traffic in 1956 is estimated at 140,000 tons, about 2 percent of the total.

The USSR has reported that approximately one-fifth of its 1956 rail traffic with China was transported via Grodekovo, two-fifths via Nuashki, and two-fifths via Otpor. [redacted] the actual freight shipped on the Trans-Mongolian Railroad suggest, however, that its share of Sino-Soviet rail freight was less than Otpor's share. Therefore, it is estimated that about 37 percent of the freight moved through Naushki and 43 percent through Otpor. 25X1

(1) Imports.

The volume of overland imports from the USSR in 1956 is estimated at about 2.7 million tons, of which more than 2 million tons have been identified in official Chinese announcements [redacted] 25X1C

25X1C [redacted] Official announcements report that China imported 5 million tons of petroleum during 1953-56. 25X1 [redacted] Chinese announcements indicate that imports of steel during 1953-56 amounted to 2 million tons.

[redacted] 25X1

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The figure probably includes castings, prefabricated steel, and other steel products not included in estimates of steel imports carried in previous EIC-R1 reports. It is believed that the annual fluctuation in volume of steel imports has been small and that the volume in 1956 was about 500,000 tons. It is estimated that imports of military equipment and supplies amounted to about 15,000 tons. The 635,000 tons of imports not identified probably included vehicles, machinery, instruments, and chemicals and may also have included paper and wood products.

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Imports on the Cherny Irtysh and Ili Rivers in Sinkiang during 1956 are estimated at only 20,000 tons. Imports along the Sungari River are estimated at 150,000 tons, including petroleum and petroleum products from Sakhalin and iron and steel. These imports accounted for three-fourths of the total international traffic on the Sungari River during 1956.

It is estimated that 1 million tons were imported over the Trans-Mongolian Railroad during 1956, including large quantities of petroleum products. Other Soviet products reported as moving into China over the Trans-Mongolian Railroad were industrial equipment, machinery, electrical equipment, and chemical products. Imports from the USSR moving on the line through Grodekovo are estimated at 450,000 tons in 1956, including petroleum products from Sakhalin and the Black Sea area as well as rolled ferrous metals, tubing, and other manufactures of the Maritime Territory.

The total volume of imports moved by truck from the USSR into China is estimated at 100,000 tons in 1956. The balance of overland shipments, or 930,000 tons, would therefore have been moved by rail through Otpor.

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(2) Exports

The volume of overland exports to the USSR in 1956 is estimated at about 3.9 million tons, including a wide variety of agricultural and animal products, chemicals, coal, cement, pig iron, mineral ores, and textiles. [redacted] 25X1

25X1 [redacted]

25X1 [redacted]

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b. European Satellites.

(1) Imports.

The value of overland imports from the European Satellites in 1956 is calculated at $170 million. It is believed that, as in 1955, imports consisted primarily of high-value commodities such as vehicles, machinery, electrical equipment, and pharmaceuticals, with an average value of $1,500 per ton. It is estimated from these figures, therefore, that the imports amounted to about 115,000 tons, all of which moved by rail.

(2) Exports.

As estimated seaborne shipments accounted for about one-half of the value of exports to the European Satellites -- $180 million of a total of $360 million -- it is believed that the value of overland shipments was about $180 million. In contrast to exports by sea, overland exports have a high value per ton, for they consist of such commodities as bristles, casings, canned foods, and handicrafts. Only small amounts of commodities with a lower value per ton, such as oilseeds and foodstuffs, move to the European Satellites by rail. The average value of overland exports to the European Satellites is estimated at $1,000 per ton, and accordingly the volume of such exports in 1956 is estimated at 180,000 tons.

c. Far Eastern Satellites.

(1) North Korea.

(a) Imports.

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Overland imports from North Korea in 1956 are

25X1 estimated at [redacted] $5 million. [redacted]

25X1 [redacted]

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(b) Exports.

Exports to North Korea, including aid shipments, are estimated [redacted] at $60 million, all of which moved overland. [redacted]

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(2) North Vietnam.

(a) Imports.

Of the total imports of China from North Vietnam in 1956, [redacted] valued at $10 million, overland shipments probably accounted for [redacted] at about $8 million. Cement probably was the largest item moved overland in terms of tonnage, and other imports consisted of small amounts of high-value commodities such as spices, tea, coffee, hides, and bamboo.

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(b) Exports.

Total exports to North Vietnam, including shipments financed by Chinese aid programs, rose in 1956 [redacted] valued at $85 million. [redacted] It is believed that iron and steel accounted for a large portion of these exports; [redacted]

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(3) Outer Mongolia.

(a) Imports.

The volume of overland imports from Outer Mongolia in 1956 is estimated at 50,000 tons, [redacted] 25X1

(b) Exports.

The volume of exports to Outer Mongolia during the first 9 months of 1956 was reported by its government as 48,000 tons, indicating exports for the year of about 65,000 tons.

4. Significance of Overland Foreign Trade Traffic.

The total volume of the foreign trade of China with Bloc countries which moved overland in 1956 amounted to about 8.5 million tons.

[redacted] 25X1

[redacted] 25X1

During 1956 the Trans-Siberian Railroad and three of its connecting lines with China -- the Tarskiy-Manchouli-Harbin, the

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Voroshilov-Suifenho-Harbin, and the Trans-Mongolian -- were the only Sino-Soviet rail connections utilized in Chinese foreign trade with the USSR, the European Satellites, and Mongolia. The importance of these lines is indicated by the fact that in 1956 they carried about 6.5 million tons, or nearly 38 percent of the total estimated tonnage of Chinese international traffic moving by all routes, including ocean shipping. The Trans-Siberian Railroad and its connecting lines, moreover, carried approximately 75 percent of the total tonnage of Chinese foreign trade moving over interior connecting routes. The foreign trade traffic of China represents also an important part of the total traffic carried by these lines.

In 1956, international rail traffic constituted only a small part of total tonnage originating on all Chinese rail lines. It was not of sufficient magnitude in itself to place an undue burden on the Chinese rail system, nor is it estimated to have added significantly to the congested traffic situation which developed on portions of the system in 1956.

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(3) Significance of Non-Bloc Shipping in the China Trade.

The overseas trade of China is transported entirely in merchant ships of non-Chinese registry, with the exception of a very small volume carried in Chinese vessels between South China and North Vietnam. Although increasing gradually in terms of both quantity and quality, the

* Following p. 64.
** Following p. 64.

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merchant fleet of China remains old, slow, and inadequate even for Chinese coastal requirements. There is reason to suspect, however, that of the 28 Polish ships on the Baltic-China run in 1956, about one-half are effectively controlled, if not owned, by the Chinese through the Chinese-Polish Shipbrokers Corporation (CHIPOLBROK).

In any case, the Chinese must depend on increasing numbers of non-Bloc ships to carry their seaborne trade. Of the more than 1,000 non-Bloc ships chartered by the Bloc in 1956, several hundred were for China trade. Although chartered shipping carries the bulk of the cargo in this trade, liner services are of more importance than the volume of cargo carried might suggest. These ships provide a regularity of shipment which enables the Chinese to engage space to move smaller lots of import and export cargoes promptly without having to await charter arrangements. For the most part, non-Bloc merchant ships during 1956 transported only the so-called noncontrolled commodities in the China trade. This service, which in itself is of great importance to the Chinese, also releases Bloc ships to transport embargoed items to China. Bloc vessels continually deliver strategic goods from Gdynia and rubber from Ceylon and Indonesia.

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[redacted] 25X1

Non-Bloc coastal services are far more important than movements of Chinese vessels in the Chekiang-Fukien coastal area opposite Taiwan. Until the rail line to Amoy was completed in December 1956, this area had been notably lacking in rail facilities, and local Chinese ports and installations would have been difficult to supply adequately except for the availability of non-Bloc shipping along this coast. Some of the British-flag ships, which are owned by Hong Kong-registered firms, probably belong to Chinese or Communist sympathizers. [redacted] 25X1

Therefore, without the benefit of non-Bloc shipping, Sino-Soviet Bloc transportation and distribution facilities, already heavily committed, would face increasing difficulties.

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b. Review of Bloc Shipping.

[redacted]

* Following p. 66.
** Table 19 follows on p.67.

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[redacted]

(3) Routes Employed.

(a) General.

Subsequent to the seizure of the Soviet tanker TUAPSE by Chinese Nationalist naval forces in June 1954, Bloc ships avoided the Malacca Straits, South China Sea, and the Formosa Strait en route to Communist China and the Soviet Far East. An alternative route through the Sunda Strait, Java Sea, Macassar Strait, Celebes Sea, and northward east of the Philippines was substituted for the less secure route adjacent to Taiwan. In February 1956, however, for unknown reasons Soviet ships returned to the South China Sea route via the Malacca Straits but continued to avoid the Formosa Strait, proceeding northward via Babuyan Channel off the northern tip of Luzon. In March 1957, Soviet ships [redacted] reverted to the use of the Sunda Strait, the Java Sea, the Macassar Strait, and the Celebes Sea route. 25X1

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[redacted] 25X1

(b) Tanker Voyages from the Black Sea.

The last Soviet tanker bound for the Far East

25X1 cleared the Suez Canal [redacted] days before the closing of the Canal. Thereafter, no Soviet tankers departed for the Far East via the Cape of Good Hope during the remainder of 1956. [redacted] 25X1

25X1 [redacted]

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The Communist Far East continued to benefit from logistic support provided by the Soviet tanker construction program in 1956. By the end of the year a total of 36 Leningrad/Kazbek-class (8,229 GRT) tankers were in operation, a majority of which were in the Far East trade exclusively or intermittently.

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All POL shipments from the Black Sea to the Communist Far East, of necessity, moved in Bloc tankers, inasmuch as non-Bloc tankers have not been made available for trade in that part of the world. 25X1

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In addition to the movement of petroleum in Bloc ships, a considerable portion of total POL exports from the Black Sea was carried in chartered non-Bloc tankers to Free World ports as well as in the intra-Bloc petroleum trade (to Albania and Poland). The availability of Free World tanker tonnage to supplement the Bloc maritime capability in the petroleum trade with other (European) areas enables the Bloc to allocate a considerable portion of its own tanker fleet to support the Communist Far East.

c. Utilization of Capacity of Shipping Engaged in Communist China's Seaborne Trade.

The pattern of utilization of cargo-carrying capacity of shipping arriving in China remained generally similar to that of previous years. Utilization continued to be low on non-Bloc liner services from West European ports, although the booking of greater volumes of cargo on liners serving China increased their utilization ratio over 1955. The cargo-carrying capacity of non-Bloc tramp service from Western Europe continued to be well utilized.

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The utilization of cargo-carrying capacity of vessels plying between China and Japan increased in both directions. 25X1

Utilization of available cargo capacity continued to be low for shipping between Hong Kong and China in 1956. The utilization of capacity of vessels plying between Bloc ports and China continued to show a great disparity. 25X1

The utilization of vessels plying between China and ports in North Vietnam, Africa, and Free Asian countries was roughly the same in each direction 25X1

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d. Port Activity.

Shanghai, the Tientsin - Taku Bar - Tangku-Hsingkang complex, Canton-Whampoa, Tsingtao, and Dairen (in that order) continued to serve as the main ports of entry for shipping. Of the total foreign merchant fleet arrivals in China, three-quarters were effected at Shanghai and ports northward. Shanghai, with 33 percent of the total, received the bulk of the traffic as in previous years. The ports of Chinwangtao and Swatow continued as important ports of entry, and Yulin (Hainan Island) retained its significance as a port for the export of iron ore.

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During 1956, there were two developments of significance on the Chinese coast. The first was the reported development of the Chinese port of Tsamkong (Chankiang), located at Fort Bayard in the former French-leased territory of Kwangfhowan, as a year-round, deepwater port. Tsamkong was opened on a limited basis in May 1956, several months ahead of schedule, and is reported to be capable of handling 1.6 million tons of cargo annually. If presently announced plans to expand the port are fully consummated, its annual cargo-handling capacity will reach 4.6 million tons. The development of this additional port in South China was undertaken in order to reduce dependence on Whampoa, where occasional problems of port congestion exist.

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(1) Bunkering.

During 1956, non-Bloc controls on bunkering of merchant vessels involved in trade with China were continued by the US, the UK, France, and Japan. Under these control procedures, bunker supplies for merchant ships en route to China were denied by the above countries when a vessel was known to be transporting unauthorized strategic commodities. The UK, France, and Japan authorized bunkers for non-Bloc vessels transporting controlled goods to China when such shipment had been licensed for export to China by a country participating in the COCOM/CHINCOM organization. The US, however, considered each bunker application on its own merits, according to the circumstances prevailing at the time of application. Thus, even though a particular strategic cargo had been duly licensed under COCOM/CHINCOM exceptions procedures, the US denied bunkering application of the vessel on which it was carried.

The major difference between US bunker controls and those of the other three countries is that only those of the US provide for a review of bunker applications for ships returning from China. Consequently, most Bloc vessels avoided bunkering from British, US, or French supplies en route to China but bunkered without restriction at Singapore on the return trip.

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The system of limited bunkering controls did not effectively prevent the movement of controlled materials to China during 1956. These controls, however, are believed to have continued to produce considerable uncertainty and inconvenience for the Bloc.

(2) Non-Bloc Deliveries of Merchant Ships to the Sino-Soviet Bloc.

The Soviet Bloc and, to a much lesser extent, China have been able to augment considerably their own international transportation facilities by the acquisition of new and secondhand merchant ships from non-Bloc countries. During 1956, 46 new merchant ships aggregating 132,584 GRT (including 2 tankers totaling 6,566 GRT) and 2 secondhand freighters with a total GRT of 12,600 were delivered to the Sino-Soviet Bloc from Western shipyards, as shown in Table 24, I and II.* This represents an increase in tonnage of more than 100 percent compared with 1955 when 26 new ships of 62,000 GRT were delivered to the Bloc.

The foreign trade of China in 1956, however, benefited only indirectly from these new ship acquisitions. Only 2 small Finnish-built cargo vessels, totaling 4,600 GRT, were delivered to China but were used only in coastal traffic. The remaining new ships were built in Belgium, Denmark, Finland, France, West Germany, the Netherlands, and Sweden for Soviet account, and only one engaged in China trade. Moreover, only 1 of the 2 secondhand ships, the 5,242-GRT SLOWAKI acquired by Poland from Norway, was assigned to China trade. The other, a British freighter of 7,372 GRT, was sold to Bulgaria.

* Table 24 follows on p. 80.

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(3) Non-Bloc Repairs to Soviet Bloc Vessels.

Although no Chinese merchant vessels are repaired in non-Bloc yards, China benefits indirectly by ship repair services provided to other Bloc countries by the Free World, as shown in Table 24, III.* During 1956, 14 Soviet Bloc merchant ships (Soviet, Polish, Czechoslovak, and Rumanian) were repaired in non-Bloc shipyards, about half of which were assigned to the China trade. In the majority of cases, these transactions involved extended capital repairs of from 2 months to more than 1 year in duration. In numbers, however, repairs on Bloc ships in non-Bloc shipyards represent only a fraction of those effected domestically in the Bloc. In fact, repair of Bloc ships in non-Bloc shipyards has steadily decreased in the last few years. The 1956 figure represents decreases of about 50 to 75 percent in the number of ships repaired in 1955 and 1954, respectively. The reduction reflects the growing use of domestic ship construction and repair facilities for merchant marine purposes, accompanied by a decrease in naval construction.

IV. Relationship of Chinese Foreign Trade to the National Economy.

Foreign trade has played an essential role in contributing to the recent rapid growth of the economic and military strength of China. Starting with an economy largely agrarian in character, China has relied on imports to obtain much of its military supplies, capital goods, and essential raw materials. The Chinese regime from the beginning has sought to maximize

* Table 24 follows on p. 80.

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exports, which reached a dollar value of $2.3 billion in 1956, more than three times that of 1950. Thus the trade policy of China has been used to facilitate the development of the economy with its orientation toward heavy industry and military modernization.

A. Foreign Trade in Relation to Gross National Product.

A comparison of foreign trade turnover to gross national product (GNP) provides a rough yet useful guide to the dependence of an economy upon foreign trade. Between 1950 and 1955, this relationship for China was about 10 percent, comparable to that of India, which is similarly underdeveloped. Imports in relation to GNP have varied between 5 and 7 percent for both countries.

In spite of these similarities, the composition of Chinese and Indian imports show striking differences. Chinese imports have included only about 10 percent of consumer goods, whereas India, in contrast, has imported about 30 percent. In addition, of their remaining imports, India has included a greater proportion of raw materials and fuels, and China has concentrated on capital goods and military supplies. India and China both obtained their imports with approximately the same relative export effort, measured as a percentage of GNP. The difference in the composition of Chinese and Indian imports is associated with the much greater Chinese industrial and military developments.

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B. Contribution of Imports to Economic Construction and Military Development.

Imports during 1953-56 totaled about 20 billion yuan (US $8 billion). The Chinese have stated that imports were divided as follows: consumer goods, 10 percent ($0.8 billion); raw materials and fuels, 30 percent ($2.4 billion); and capital goods, 60 percent ($4.8 billion). Although the Chinese have never mentioned military equipment and supplies in reporting the commodity composition of their imports, it is believed that the category of capital goods includes an indeterminate proportion of material for military use.

The Chinese estimated that during the First Five Year Plan (1953-57) imports of machinery and equipment for state construction projects would account for 15.2 percent of total expenditures for state construction, or about 6.5 billion yuan. With 85 percent of the construction program completed during 1953-56, these imports are estimated at about 5.5 billion yuan ($2.2 billion) or slightly more than a quarter of total imports. In addition, Communist China has imported construction materials, particularly steel of which 2.8 million tons were imported during 1953-56. The Chinese claim that imports would supply about one-fifth of their finished steel requirements during the First Five Year Plan.

A substantial portion of the machinery and equipment imports has been obtained under contracts for "complete installations" negotiated with the USSR and other Bloc countries, in which the suppliers undertake to design

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and supervise the construction and initial operation of the installations. In 1953 and 1954 the USSR agreed to construct 156 such industrial installations with a value of $1.4 billion and in 1956 contracted for 55 additional installations with a value of $600 million. By 1957, 43 of these installations had been completed and 102 were under construction, and it is believed that most of them are scheduled to be completed by 1960. Similar installations, although on a much smaller scale, are being provided by the European Satellites.

The Chinese have reported in their budgets total military expenditures during 1953-56 of about 24 billion yuan (US $10 billion) but have not indicated what proportion of these expenditures was for imported material. The Chinese have reported receipts of Soviet credits of $2.2 billion, of which $1.26 billion were utilized during 1953-56. Economic credits utilized during 1953-56 include a scheduled $120 million from the 1950 loan and almost all of the $130-million 1954 loan. The bulk of the credits utilized in 1955 -- $675 million -- were specifically stated to be for military supplies and installations turned over to the Chinese on the departure of Soviet forces from Manchuria.

It is uncertain how the remaining $400 million in credits during 1953-56 were utilized, as no formal arrangement covering these credits has been announced. It may be argued that, because of the secrecy, these were military credits in spite of the fact that the 1954 credits ($360 million),

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which included a large portion of these remaining credits, were described in the budget as supporting economic construction. In addition to military material financed by loans, the Chinese are believed to finance some military imports through trade which have been estimated very roughly at about $150 million annually. These indications, although fragmentary, suggest that military imports during 1953-56 may have been between $1.2 billion and $1.6 billion.

C. Internal Resources Allocated to Exports.

Products of agricultural origin constitute about three-fourths of the value of Chinese exports. Although exports represent only a small proportion of agricultural production, exports of basic foodstuffs compete with the requirements of an increasing population and a growing industrial economy which requires industrial crops. Total output has been affected by adverse weather conditions as well as by changes in the institutional setting such as collectivization. As a result of these factors, China has encountered increasing difficulties in expanding exports of basic foodstuffs and has stressed greater exports of subsidiary agricultural products such as bristles, feathers, hides, tung oil, and silk.

Of nonagricultural exports, mineral products -- primarily nonferrous -- form the major share. Nearly all of the current output of tin, tungsten, mercury, magnesite, fluorspar, and molybdenum is exported as well as about half of the zinc mined. Although most of the ferrous mineral output has been consumed domestically, in 1956 about 7 percent of iron ore production,

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12 percent of pig iron production, and 5 percent of finished steel production is estimated to have been exported. Between 1 and 2 percent of the coal output was exported.

The pressure on Chinese export resources appears to be serious enough to entail a cutback in the export program for 1957 and possibly for future years. Although there are indications that China is making investments to expand production and exports of nonagricultural commodities such as nonferrous metal products, the main possibilities for expanding exports in the near future are limited to agricultural commodities. The Chinese appear concerned over the dangers inherent in reducing already-low internal consumption further. As an illustration, the Chinese, after an unsatisfactory crop year in 1956, apparently were forced to the decision to reduce exports in 1957 rather than to curtail domestic consumption further.

D. Economic Growth and Future Trends in Foreign Trade of Communist China.

Recent events have indicated that the foreign trade of China has become an increasingly important factor in shaping its ambitious industrial and military programs. At the Eighth Party Congress in September 1956 the Chinese outlined a preliminary draft of their Second Five Year Plan, which called for a doubling of industrial output and an increase of 50 percent in national income as well as doubling the volume of capital construction over that of the First Five Year Plan. Since then, the regime has indicated that it is lowering its goals and readjusting the program and that one of the

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important factors involved in this re-evaluation of their capabilities is an appreciation of their limited import prospects stemming from export difficulties and other payments problems.

The September 1956 draft of the Second Five Year Plan proposed that, compared with the First Five Year Plan, imports of machinery and equipment would decline from 40 to 30 percent of total needs, or from 15 to 11 percent of total expenditures for construction. Because of the planned doubling of capital construction, however, the volume of such imports was scheduled to increase by half. More recently the regime has canceled several major industrial projects and has called for increased emphasis on small and medium-sized plants which would require proportionately less imports. Recent reports that imports of machinery and equipment would supply only 20 to 30 percent of requirements for a smaller capital construction program than originally planned indicate that the regime is reducing scheduled imports of capital goods, possibly to less than those of the First Five Year Plan.

Although the precise factors involved in this reassessment of import prospects are uncertain, it is clear that payments difficulties play a prominent part. During the First Five Year Plan the Chinese had current net receipts on the nontrade items in the balance of payments which enabled the financing of an import surplus of 1.9 billion yuan.* In the Second Five Year

* Including military imports. Payments on foreign credits and for foreign aid totaled ¥ 3.4 billion, receipts of foreign credits totaled ¥ 3.1 billion, and net receipts on all other items amounted to about ¥ 2.2 billion, including particularly overseas Chinese remittances and expenditures of Soviet forces in China during 1953-55.

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Plan, however, the Chinese appear to contemplate a sharp reduction in receipts from foreign credits, a sharp increase in service charge payments on existing credits, some decline in remittances from overseas Chinese, and a considerable decline in foreign expenditures in China (largely, as a result of the withdrawal of Soviet forces in 1955). Although present Chinese foreign aid commitments total only one-third of those granted during the First Five Year Plan, new grants or loans may be extended as current programs expire over the next few years. On the basis of these factors, the Chinese would be confronted with nontrade expenditures exceeding nontrade receipts by possibly 3 billion to 3.5 billion yuan during the Second Five Year Plan. This deficit would have to be balanced largely by an export surplus, since present foreign exchange reserves are limited.

The Chinese, after an unsatisfactory crop year in 1956, appear to have lowered their estimates of their export potential. A recent analysis of long-run export prospects published in the Chinese press considered that exports of basic foodstuffs and consumer goods, constituting half of current exports, could not be expanded appreciably and in some cases would be reduced as the result of rising domestic needs. The increase in total exports would then depend on expanding the sales of other exports, particularly specialties to the overseas Chinese populations of Asia, handicrafts to Bloc and Western markets, minerals to Japan and other areas, and light industrial products to Southeast Asia. Although exports rose by half between 1953 and 1957, the regime clearly expects a leveling off in the rate of export increases. It

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may be noted that, in view of the movements of the nontrade items in the balance of payments, exports would have to increase by about one-fourth over the level of the First Five Year Plan in order to finance the same level of imports.

The Chinese may also have reappraised their import needs. A recent analysis published in China indicates that the proportion of imports allocated to essential consumer goods and to raw materials and fuels will be increased during the Second Five Year Plan, presumably reflecting increased urbanization and industrialization. There is no indication of the trend in military imports.

V. Impact of the Closure of the Suez Canal on the Trade and Transport of Communist China and Prospects for 1957.

A. Impact of the Closure of the Suez Canal.

1. Shipping.

Probably the most significant development in 1956 affecting shipping engaged in Chinese foreign trade was the closure at the end of October of the Suez Canal -- through which about 20 percent of China's total foreign trade moves. The effects of the closure were manifested primarily in early 1957. Bloc shipping services, whose employment in China's trade even under normal conditions is limited (reflecting a serious weakness in the over-all Bloc supply system), were restricted further during the period of the closure, and to a greater extent than non-Bloc shipping services.

The interruption of shipping between Europe and Asia compelled the use of much longer alternative sea routes for trade between these areas. Bunkering was difficult as rerouting became widespread and bunker ports

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became congested. Moreover, the maintenance of the flow of commodities over extended sailing distances greatly increased world shipping requirements. As a result, the tight ship charter market created when Egypt nationalized the Suez Canal in mid-1956 became increasingly restrictive, and shipping costs rose steeply.

a. Rerouting of Vessels.

The closure of the Suez Canal interrupted traffic on the shortest all-season sea route between Europe and the Far East. Vessels engaged in Chinese trade and normally using the Canal had to choose between the Panama Canal or the Cape of Good Hope routes. The use of either meant a significant increase in sailing time and drastic revisions in delivery schedules. For the most part, shipowners found it more advantageous to use the Cape route. [redacted] As a result, voyage time between Europe and China became one-third or more longer. For example, the distance between Hamburg and Shanghai is 10,785 nautical miles via the Suez Canal; around Africa the distance is about 14,150 nautical miles. The time and distance differentials between Mediterranean or Baltic Sea ports and China became even greater.

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b. Tightening Ship Charter Market.

The extension of voyage time for vessels carrying a sizable segment of world trade greatly increased the need for both tankers and cargo vessels, thus aggravating a charter market that had been tightening since

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the Suez Canal was nationalized on 26 July 1956. Over-all tonnage offerings in October, before hostilities in Egypt, were barely able to cope with traffic demands. Hostilities in Egypt made it even more difficult to find vessels, especially for the Far East. Some liners serving the area were rerouted to other trades, and many cargo vessels previously available for charter on a one-trip basis were withdrawn. The impact on shipping between Europe and the Far East in general is best illustrated by the freight-rate increases of 15 percent in early November and 17.5 percent on 1 February 1957 which were incurred by traffic between these areas. To these additional costs must be added increased insurance premiums.

c. Bunkering Difficulties.

Most vessels engaged in regular traffic are built to operate on particular trade routes, with consideration for obtaining fresh food, fuel, and water at certain ports along the way. On the long-established route to the Far East through the Suez Canal, there are many ports equipped to provide these necessities. Ports along the Cape of Good Hope route are not so numerous; neither are they sufficiently large to service efficiently large numbers of vessels diverted from the Suez Canal. Vessels using the route, therefore, had to incur certain disadvantages in addition to those imposed by increased sailing distances.

The diversion of China-bound vessels around Africa caused delays in bunkering of from 2 to 8 days. Regular lines normally using the facilities on the west coast of Africa and at Capetown were given preference,

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and owners of other vessels had to arrange for agents and negotiate bunker contracts. Bunker facilities for Bloc vessels engaged in carrying strategic commodities to China were even more limited, inasmuch as Western bunkering regulations which normally apply to ports east of Suez were interpreted to cover ports east of Capetown.

The impact of bunkering difficulties on the Bloc is illustrated by the report in December that Czechoslovakia almost found it necessary to withdraw its vessels from the China trade because of the difficulty in obtaining bunker facilities on the route around Africa. Moreover, the USSR was compelled to bunker some of its vessels at sea from a Soviet tanker.

d. Increased Shipping Costs.

As a result of the increased voyage time of 30 days per round trip between Europe and the Far East, operating costs for a standard cargo vessel in trade between these areas increased by about $87,000 (approximately $2,900 a day). To cover the additional costs of fuel, wages, and supplies, shipowners raised freight rates -- the additional rate applied to Chinese import traffic routed via the Cape of Good Hope amounted to a minimum of $4.20 per ton. As a result, it is estimated that from November 1956 through April 1957 China incurred an additional expense of approximately $3 million*

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for imports via the Cape of Good Hope. This expense is in addition to the general freight-rate increase incurred immediately after the Suez Canal was nationalized in July 1956, which amounted to about $4 per ton. The aggregate of these additional freight charges incurred by Communist China amounted to about $6 million.

2. Effect of Suez Canal Closure on the Seaborne Trade of Communist China.

Although some shipowners began diverting their vessels around the Cape of Good Hope after nationalization of the Suez Canal in July 1956, the major impact on shipping was not felt until the Canal closed at the end of October 1956. [redacted] the chief impact on shipping service provided for China was felt during the period January-April 1957. [redacted] Thus the closure of the Suez Canal had some direct effect on the seaborne commerce of China. Chinese exports, mainly iron ore, soya beans and foodstuffs, and fertilizer imports were affected by the shipping shortage and increased freight rates which ensued. The closure of the Suez Canal, however, coincided with other factors which also had a depressive effect on China trade, such as shortages of exportables and of foreign exchange.

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The downward trend in arrivals prevailed among Bloc as well as non-Bloc vessels, although the former showed the greatest relative decline.

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This increase continued a trend evidenced early in 1956 and maintained throughout the year. This trend is believed to be a reflection of the increase in non-Bloc liner services between Europe and the Far East and in tramp shipping from Japan.

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b. Reasons for Decrease in Merchant Ship Arrivals in Communist China.

The decline of the seaborne trade of China, reflected in decreased arrivals, apparently cannot be explained as being entirely the result of the closure of the Suez Canal. It is quite certain that the worldwide shipping shortage and the consequent increase in freight rates were important factors influencing the over-all downward trend in merchant ship arrivals in China. There have been reports indicating that cargoes to and from China have been delayed by the dislocation of shipping since the end of November 1956. For example, shipments of iron ore to East Germany and coal deliveries

* Table 27 follows on p. 101

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to Pakistan have lagged because of the scarcity of shipping. Moreover, the unavailability of shipping has hindered China in obtaining desired imports such as fertilizer from Western Europe.

Other factors, however, probably have also had a depressive influence on China's seaborne trade. Defects in industrial planning in 1956, in large part involving overinvestment in some sectors of the economy, led to the need for "suitable retrenchment" in 1957. During 1957, it was announced that China's construction program will be 20 percent smaller than in 1956 -- investment will be limited to about one-third of total government revenues, compared with about 45 percent in 1956. Internal and external economy drives have also been undertaken which may have caused cancellation of some contracts for equipment abroad.

Furthermore, the faulty planning in 1956 led to serious shortages of some domestically produced commodities. Iron ore and coal, both major export items, were reported to be in short supply internally in early 1957 and therefore probably were not available for export in the same volume as in 1956. Typhoons and floods in the summer and autumn of 1956, which were apparently more serious than originally thought, also affected the availability of some basic products for export. It was subsequently announced that exports of certain major commodities in 1957 would be reduced greatly compared with 1956.

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3. Diversion from Ocean Shipping to Rail Transport.

No specific data are available upon which a quantitative estimate can be made of the diversion of the foreign trade of China from ocean routes to overland rail routes as a consequence of the closing of the Suez Canal. Nevertheless, an estimate can be made of what may have taken place based upon knowledge of historical movement patterns and the supply position of China.

Owing to the imperative need of maintaining a constant supply of petroleum, the overland movement of this commodity for China via the Trans-Siberian Railroad may have been expected to increase by approximately 25,000 tons per month (equivalent to a daily movement of about 800 tons, or slightly more than one half train load) as a result of the suspension of sea movements. No Black Sea petroleum is believed to have reached China either directly by sea or indirectly by ocean voyage around Africa to Vladivostok and by rail from there to China via the Grodekovo border point during the time the Canal was closed.

The tankcar park of the USSR may well have been placed under an extra strain owing to the relatively long car turnaround time required for the overland movement of petroleum to China and the Soviet Far East which probably totaled 60,000 tons per month, or the addition of about 1½ trains per day. It is even possible that petroleum deliveries of lower priority within the USSR may have had to be deferred. No additional strain, however, was probably placed on the rail system of China, because even with the Canal

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in operation there has been a normal rail movement from Vladivostok via Grodekovo to China of the petroleum received at Vladivostok by sea from European USSR.

Certain other goods on order by China from the European Satellites undoubtedly were shifted from sea to overland rail movement as soon as it became clear that the Canal would be blocked for a matter of months. These goods probably consisted mainly of high-value priority items. Diversion to rail up to the end of 1956 of dry cargoes from the Satellites to China is estimated to be about 15,000 tons. In 1957, such shipments probably amounted to less than 5,000 metric tons per month.

Westbound freight from China and North Korea for the USSR and the Satellites, the absence of which might have interfered with Soviet or Satellite key industrial plans or developments, may have been shipped overland also in limited amounts. Possibly in this category would have been rubber, jute, nonferrous metals and concentrates, oilseeds, soya beans, and certain chemicals. Although the Satellites are known to have been short of iron ore during this period, an estimate that there was the likelihood of an overland movement of any great amount must be ruled out because of the excessive transport cost for such movement. A rough estimate of the maximum tonnage which under the most urgent circumstances might have been diverted to the railroad for westbound movement during 1956 would be in the neighborhood of 30,000 to 35,000 tons. It would, however, be reasonable to assume that overland freight costs and the necessity for providing Soviet exchange

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precluded the shifting of an amount so large to the rails for the account of the Satellites exclusively. A rough estimate is that diversions to the railroads during 1957 probably were no more than 5,000 tons per month until the Canal was reopened, when, after a short lag, they probably ceased. The impact on the railroads of having to move diverted dry cargo was of less consequence than the increased petroleum movement, because the volume was lower and the need came after the season of peak demand on closed cars had passed.

One principal factor in restraining the demand for overland transportation on the part of China and the European Satellites was the great excess of land freight rates over ocean shipping rates. Following the closing of the Suez Canal, it appears reasonable that except in the most urgent cases the Chinese and European Satellites would have accepted the delays to shipments occasioned by the routing of ships via the Cape of Good Hope rather than pay the added transportation costs resulting from a rail movement including the release of ruble exchange for the transit through the USSR.

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B. Prospects for 1957.

1. Trade.

At the National Peoples Congress in July 1957 the Chinese announced that the 1957 trade plan provided for total foreign trade valued at 9,955 million yuan (slightly more than $4 billion), or 8.4 percent less than in 1956. This total would consist of imports valued at 4,755 million yuan and exports valued at 5,200 million yuan, 10.2 percent and 6.6 percent, respectively, below 1956 levels.

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Planned exports are $150 million less than in 1956. The major reduction is reported to be in grain exports, which are expected to decline by 540,000 tons, or 41 percent less than in 1956. Exports of edible vegetable oils are to be reduced from the 1956 level by 100,000 tons, pork by 85,000 tons, and cotton yarn by 12,200 bales. These cuts would be partly compensated for by planned increases in exports of minerals and industrial and handicraft products. The planned reduction in imports of $220 million apparently reflects China's currently weak export and foreign exchange position. There are indications that imports of machinery will be particularly affected, reflecting concentration on less pretentious plant construction for which the Chinese can themselves supply most of the materials. This reduction in machinery will, however, be partly offset by increased imports of consumer goods to alleviate domestic shortages.

Despite the planned reduction in 1957 trade, the Chinese have reported that the aggregate volume of foreign trade in the First Five Year Plan will exceed the original target by 6.4 percent and that the plan will be overfulfilled by 8 percent for imports and 4.8 percent for exports.

Our present estimate of China's 1957 balance of payments indicates a probable deficit of about $203 million, compared with the estimated deficits of $46 million in 1955 and $173 million in 1956.* The increase in

* See Section II, A, 3, p. 4

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these estimated deficits in 1956 and 1957 compared with 1955 probably reflects in large part receipts of goods under barter agreements with the USSR not paid for by exports during the periods in question. The failure to meet these export commitments was tantamount to an extension of short-term Soviet credits. In addition, the deficits probably reflect some drawing down of foreign exchange holdings. (See Table 28.)

Table 28

Estimated Balance of Payments of Communist China
1957

	Million US $
Payments	
Imports (c.i.f.)	-1,930
Debt repayment	- 250
Foreign aid grants and loans	- 207
Total	-2,387
Receipts	
Exports (f.o.b.)	2,115
Overseas remittances	60
Foreign credit receipts	9
Total	2,184
Deficit, including errors and omissions	203

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A slight further shift in the direction of China's trade toward the Free World is expected in 1957.

Considering that the total trade in 1957 is scheduled to decline, the maintenance of the non-Bloc trade at the 1956 level would result in an increase in its share to at least 27 percent.

The Chinese have announced that 1957 trade with the USSR would be 4 times that of 1950 and would account for half of total trade, indicating a decline in the Soviet trade of as much as 15 percent. Assuming no change in the Satellite share of trade, this suggests that the Bloc share of trade will be about 71 percent of the total, a level consistent with the indications of the non-Bloc share mentioned above.

2. Transport.

The opening of the Suez Canal removed an impediment to shipping engaged in China's foreign trade. Shipping services to China recovered during the second 4 months of 1957

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[redacted] 25X1

The effect of the increase in shipping service during the period May-August 1957 was to compensate for the reduction in shipping service sustained during the first 4 months of the year, so that the average

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25X1 [redacted] It now appears that shipping service provided China during 1957 will not be substantially greater than that provided during 1956.

Since the opening of the Suez Canal, petroleum shipments by sea

25X1 have not completely resumed their pre-Suez pattern, [redacted] Over-land movements of other diverted goods have probably long since returned to the sea.

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There are, however, other forces conducive to the maintenance of adequate shipping service for China's foreign trade in 1957 and the immediate future. Since the reopening of the Suez Canal, there has been a decline in the world charter markets for both dry cargo vessels and tankers, so that China, as well as other Bloc countries, should have no difficulty in chartering Free World vessels at relatively reasonable rates for trade movements during the year. Moreover, as the result of the elimination of the so-called China differential by all countries in the COCOM/CHINCOM organization except the US, in May and June 1957, controls on the use of Free World vessels in the China trade are being relaxed by a number of the leading maritime powers. Similarly, efforts are being made to reduce if not eliminate bunkering controls. The relaxation of these controls would place China charters on an equal footing with Free World charters and would eliminate an irritant and inconvenience to China. Furthermore, the elimination of bunker controls would in effect increase the payload carrying capacity of Bloc vessels engaged in China trade which previously had to sacrifice badly needed cargo space for the carriage of bunker supplies required for the long voyage to China.

These circumstances, which would increase the availability of shipping to the Bloc with its attendant lower transportation costs, may result in some increase in the portion of Chinese - Soviet Bloc traffic moving by sea. The decline in intra-Bloc trade and the relative increase in trade with the Free World projected for 1957 would have the effect of

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also increasing the relative share of seaborne trade, because the bulk of Free World trade with China moves by sea, and a large proportion of Bloc trade normally moves overland. Thus, some increase in the relative share of China's seaborne trade is expected, barring unforeseen developments which would disrupt shipping in the China trade.

China may now also increase the size of its oceangoing fleet through purchase of merchant vessels up to 15½ knots in speed from major Free World shipping and shipbuilding nations except the US. The purchase of even secondhand vessels will require considerable outlays of foreign exchange or other exports, and Free World shipbuilding yards are already heavily committed with orders to build new vessels well into the future. It is improbable, therefore, that China will be able to avail itself of this opportunity during 1957. There is no need for China to do so as long as shipping requirements are provided by other Bloc countries and the Free World. There is some evidence, however, that the Chinese may have plans for the employment of their own merchant ships in trade with Southeast Asia within the next few years.

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APPENDIX A

STATISTICS FOR THE FOREIGN TRADE OF COMMUNIST CHINA 1950-56

I. Introduction.

More information on the foreign trade of China was released during 1956-57 than in any previous comparable period by the governments of China, the European Satellites, and the USSR. Many of the releases are obscure and difficult to interpret. Most figures of trade activity are given as index numbers and percentage changes from earlier periods, and there are apparent irreconcilable conflicts among some figures. An increasing number of absolute figures, however, have been announced. On the basis of this new information a number of estimates in EIC-R1-S5 have been revised, the revisions being referred to in footnotes throughout this report. This information raises questions regarding the validity of the method for conversion of yuan values into dollar equivalents at the cross rate with the yuan-sterling rates reported by the Chinese -- as has been done in EIC-R1-S5 and in this report. As estimates of the yuan value of the foreign trade of China for 1950-56 are considered relatively reliable, they are presented in this report as a point of reference for the less reliable dollar estimates.

II. Yuan Value of Foreign Trade.

A. Total Trade and Balance of Trade.

In September 1956 the Chinese published an index of the value of total foreign trade for 1950-55. The value of trade during these years has been computed from this index and an official figure for trade in 1954

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(8,487 million yuan). The value of exports and imports and the resulting balance of trade have been calculated from a recent announcement of import-export ratios for 1950-55. These data, together with the announced value of exports and imports for 1956 and the 1957 plan, are presented in Table 31.

Table 31

Estimated Yuan Value of the Foreign Trade, Imports, Exports, and Trade Balances of Communist China 1950-57

Million Yuan

Year	Total Trade	Imports	Exports	Trade Balances
1950	4,160	2,122	2,038	- 84
1951	5,949	3,510	2,439	- 1,071
1952	6,490	3,764	2,726	- 1,038
1953	8,112	4,624	3,488	- 1,136
1954	8,487	4,413	4,074	- 339
1955	11,024	6,063	4,961	- 1,102
1956	10,865	5,297	5,568	+ 271
1957 (Plan)	9,955	4,755	5,200	+ 445

B. Direction of Trade.

The direction of trade has also been estimated from Chinese official data. In 1956 a table was published showing the percentage of the trade of China with the three main areas of the Bloc and with the Free World from 1950 through 1953.* In 1957, comparable official data for the distribution

* These percentages were released in conjunction with indexes of Bloc and total trade which differ from the recently announced index of total trade. For example, total trade for 1953 was reported at 181 percent of 1950, compared with the recent figure of 195 percent indicated in the index. The differences may reflect use of different units of account or incomplete coverage. It is believed, however, that these percentages, despite their inconsistencies, indicate reasonably well the direction of Chinese trade in these years.

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of trade in 1956 were published. Only miscellaneous announcements reporting the Bloc and Soviet shares of the trade of China have been released for the intervening years 1954 and 1955. The Bloc share was reported for those 2 years as 80.55 percent and 82 percent, substantially larger than in 1952, 1953, or 1956. The Soviet share, however, was announced as 55 percent and 55.3 percent for 1954 and 1955, approximately the same share as in 1952 and 1953 and again in 1956. These figures would indicate that the share of the Satellites (European and Far Eastern) in the foreign trade of China increased considerably over their share in 1952 and 1953 and that their share decreased in 1956.

No other information, however, supports this indication. It appears, on the contrary, that the substantial increase in Bloc participation in the trade of China in 1954 and 1955 was a result more of expansion of trade with the USSR than of expansion of trade with the Satellites. In both these years the USSR extended loans -- amounting to about $360 million in 1954 and $675 million in 1955. Such loans have been observed in earlier years, but in 1953 they totaled only slightly more than $175 million. That the Soviet share of Chinese trade should be higher than the announced percentages is also suggested by a recently published Chinese index of Sino-Soviet trade for 1955 and 1956 (with 1950 as the base year) which indicates that the Soviet share of trade in 1955 was approximately 62.5 percent. The Soviet share for 1954 may, therefore, be estimated at 59 percent. With credits reduced to less than $50 million in 1956, the Bloc and Soviet shares of Chinese trade would be expected more closely to approximate the 1953 level. This expectation is confirmed by the Chinese trade announcement for 1956.

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[redacted] trade with the European Satellites suggest that their share of China's trade declined from 19 percent in 1953 to about 16.55 percent in 1954 and 15 percent in 1955. On the basis of these figures the share of the Far Eastern Satellites is calculated as rising from 2.52 percent in 1953 to 5 percent in 1954 and declining to 4.5 percent in 1955.

The percentage distribution of the foreign trade of China, shown in Table 32, was used as the basis for estimating the distribution of the yuan value of trade, as shown in Table 33.*

Table 32

Percentage Distribution of the Foreign Trade of Communist China
1950-56

	Percent of Total Trade						
	1950	1951	1952	1953	1954	1955	1956
Non-Bloc	66.52	36.72	21.92	24.51	19.45	18	24.7
Bloc	33.48	63.28	78.08	75.49	80.55	82	75.3
USSR	30.89	48.72	57.34	56.39	59	62.5	53.7
European Satellites	1.99	13.24	19.02	16.58	16.55	15	17.2
Far Eastern Satellites	0.6	1.32	1.72	2.52	5	4.5	4.4

* Table 33 follows on p. A-5.

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Table 33

Estimated Yuan Value of the Direction of the Foreign Trade of Communist China
1950-56

Million Yuan

	1950	1951	1952	1953	1954	1955	1956
Total trade	4,160	5,949	6,490	8,112	8,487	11,024	10,865
Non-Bloc trade	2,767	2,184	1,423	1,988	1,651	1,984	2,684
Bloc trade	1,393	3,765	5,067	6,124	6,836	9,040	8,181
USSR	1,285	2,898	3,721	4,574	5,007	6,886	5,834
European Satellites	83	788	1,234	1,345	1,405	1,658	1,86[illegible]
Far Eastern Satellites	25	79	112	204	424	496	478

4. Capital Movements

The budget report of Vice-Premier Li Hsien-nien to the 1957 National Peoples Congress provides considerable information of the value of Soviet loans to China. Li reported that the USSR has extended to China loans amounting to 5,294 million yuan, of which 2,174 million were used before 1953 and 3,120 million are being used in the period of the First Five Year Plan. The budget report also provides the basis for calculating the annual utilization of the Soviet loans extended during the Five Year Plan.

Other capital movements have been revealed in budget reports. Foreign aid expenditures have been reported for the years 1955-57. Service on debts (both domestic and foreign) has been reported for the years 1954-57. As information is available on domestic debt service, foreign debt service has been calculated as residuals. These data are shown in Table 34.*

* Table 34 follows on p. A-6.

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Table 34

Selected Capital Movements in the Balance of Payments of Communist China
1950-56

Million Yuan

Period	Receipts of Foreign Credits	Foreign Debt Service	Foreign Aid Extended
1950-52	2,174	Negligible	N.A.
1953	438	Negligible	N.A.
1954	884	135	a/
1955	1,657	480	393
1956	117	595	404

a. Aid to North Korea in 1954 has been reported at 300 million yuan.

III. US Dollar Value of Foreign Trade.

In previous EIC-R1 reports, yuan values of trade have been converted into dollar equivalents by using the yuan-sterling exchange rate reported by China. Although Free World trade data warrant the use of this rate in converting the yuan value of Free World trade to dollars, there has never been adequate evidence for using the same exchange rate in trade with the Bloc countries. Data in recent Soviet and Satellite releases about their trade with China indicate that this method for yuan-dollar conversions should be reexamined.

These data indicate lower dollar values for Chinese trade with Bloc countries than are carried in previous EIC-R1 reports. The USSR has announced the ruble value of its trade with China as 1,656 million rubles (at the official rate of exchange equivalent to $414 million) in 1950; 4,140 million rubles ($1,035 million) in 1953; 4,500 million rubles ($1,125 million) in 1954; and 5,500 million rubles ($1,375 million) in 1956.

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The reports of the European Satellites of their trade with China indicate a value of total Sino-European Satellite trade in 1956 of approximately $540 million. These dollar figures may be compared in Table 35* with the estimated value obtained by converting Chinese figures expressed in yuan value to dollar equivalents by using the yuan-sterling-dollar cross rate. A comparison of the figures reveal that for 1950 the conversion ratio for Sino-Soviet trade is about the same as the official cross rate, but that those for succeeding years indicate a higher conversion ratio.

There are several possible explanations for the discrepancies in the data. These explanations highlight the difficulties and limitations of attempting to reconcile these differences and to express Chinese trade data denominated in yuan into meaningful equivalents.

Part of the disparity between dollar estimates based on Chinese data and those based on Soviet and European Satellite data might be explained by Bloc methods of pricing commodities in intra-Bloc trade. According to Chinese statements, trade with the Soviet Bloc is conducted at constant ruble prices, based on 1950 world prices. Thus the value of the trade as reported by China should be the same as the value reported by the USSR if it also reported trade in constant (1950) prices. If, however, the USSR reported trade in constant (1950) prices and China reported it in current prices, the value of the trade as reported by China would increase more rapidly between 1950 and 1956 than the value as reported by the USSR, for world prices rose during these years.

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Such price rises are, however, insufficient to account fully for the disparities. The discrepancy in Sino-European Satellite trade, as reported by the Chinese on the one hand and the European Satellites on the other, can be accounted for to even a smaller degree by this price factor. The evidence indicates that unit prices in this trade were not as constant as in the Sino-Soviet trade.

Furthermore, in computing trade data, the USSR may have excluded some items of trade that China may have included, since the reported value of the USSR of its trade with China appears especially low as compared with intelligence estimates as well as with Chinese reports. The items most likely excluded are military goods shipped to China. This difference in statistical procedures could account for the disparity in 1953 but not for that in 1956, when military deliveries were small.

Another possible explanation is that the Chinese figures present foreign trade as valued in domestic rather than in international prices. It is known that several Bloc countries record foreign trade valued in domestic prices as well as in international prices for purposes of planning and accounting.

In Bloc countries the foreign trade price of a commodity usually differs from its domestic price. The ratio of domestic prices to world prices varies from one commodity to another. Thus a conversion ratio from yuan to dollars for trade within the Bloc would vary from country to country depending upon the commodity composition of the trade. Information presently available does not permit the calculation of meaningful conversion ratios based on domestic prices for Chinese trade with Bloc countries.

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Thus there is no available explanation for the discrepancies in trade data, and a reconciliation would probably encompass all of these factors and possibly others. The paucity of information about the methods of China of recording and reporting foreign trade, including data on exchange rates, precludes a completely satisfactory explanation or exact estimate of the dollar value of this trade. It is believed, however, that conversion of yuan values to dollar equivalents by using the sterling cross rate gives a useful approximation of the value of trade. 25X1

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