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CHINA'S FOREIGN TRADE, 1950-1973: THE
AMERICAN CONTRIBUTION

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22 October 1973

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20. ABSTRACT (Continue on reverse side if necessary and identify by block number) This essay deals with three related problems. First: the size, direction, and composition of the PRC's foreign trade since 1949. Second: the character of Sino-American trade since 1971, when the twenty-year embargo on such by the U.S. was lifted. Third: the estimates that can be made for China's foreign trade in general and trade with the U.S. in particular for 1974 and beyond. Based on an analysis of the latest trade data available, it is concluded that the Sino-American trade of 1971-present has been most		

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beneficial to the PRC and severely inconsequential to the U.S.; both conclusions being reached from a primarily military point of view.

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THE AMERICAN CONTRIBUTION

by

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US Army War College
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CHINA'S FOREIGN TRADE, 1950-1973:

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I. Sino-World Trade

Since 1959, analyses of economic developments in China have begun with the statement that, since that year, the Peking Government has not issued sufficiently numerous economic data to permit accurate authoritative analyses of economic developments in China. In 1973 the tradition continues. As for the past 13 years, what we think we know about China's economy comes more from China's trading partners than from China itself. Data dealing with exports, imports, trade balances, terms of trade, financial arrangements, the direction and composition of trade, and so on continue to substitute, inadequately, for production, distribution, national income data and the like.

On the whole, the years from 1950 to 1966 were ones of erratic progress for China's economy as a whole and for its foreign trade.¹ In that 17-year period, the volume of China's foreign trade increased from \$1.2 billion to approximately \$4.2 billion. A tendency in the early 1950s to have unfavorable balances of trade was corrected by the end of the decade which was characterized by favorable or neutral balances.²

In the 1950s, China depended very heavily on trade with the Communist bloc countries to make available machinery and other industrial equipment needed for its industrialization program. Imports from these countries were only \$140 million in 1950, but rose to \$1.4 billion by 1959, the last complete trade year before the Sino-Soviet rift was irretrievably exposed to world view. Suggestive

of the importance of Communist bloc trade to China's industrialization program is that, between 1950 and 1957, the Soviets exported over \$4.9 billion in goods to China, most of which represented not only machinery and equipment per se, but complete plants.³

During the first five-year plan, the ratio of the value of the complete plants to the total value of machinery and equipment imported from the USSR was 60 percent or higher in most years, and, in 1957, it was 77 percent. By 1957, about 57 percent of China's steel production and 50 percent of its coal production were coming from Soviet-constructed enterprises. In 1959, total Soviet exports to China were nearly \$1 billion, of which about \$600 million represented machinery and equipment, with \$400 million of that \$600 million representing complete plants. In 1959, the Soviet Union's share of China's total foreign trade was 48 percent.

Exposure of numerous wide Sino-Soviet differences in 1960 changed many facets of China's economic development.⁴ China turned from the Soviet bloc to Japan and Western Europe for trade and, in particular, for supplies of industrial machinery and equipment. By 1965, less than one-third of its trade was with the Communist bloc countries where it had been about 70 percent in 1959. In 1965, the Soviet Union's share of China's foreign trade was down to 11 percent.

Between 1960 and 1965, China bought from Japan products previously purchased from its former Socialist allies. These included general machinery, fertilizer, iron and steel, electric machinery, and organic chemicals. From West Germany, Great Britain, France, and Italy, China purchased more of the same, plus specialized machinery and equipment not available in Japan (e.g., jet transports), or machinery and

equipment technically superior or lower in price than that available in Japan. Nonetheless, by the beginning of 1966, Japan had clearly replaced the USSR as China's chief source of industrial equipment.⁵

Yet another major development after 1959 was China's sharply increased dependence on imports of grain from Australia, Canada, France, and Argentina. Between 1961 and 1965, China imported 29.7 million metric tons of grain valued at \$2.1 billion. The expenditure of scarce foreign exchange on this nonindustrial equipment commodity was involuntary rather than voluntary.⁶ In the late 1950s and early 1960s, despite the usual pronouncements from Peking about "glorious achievements in agriculture," food shortages were reported in many areas. Furthermore, this was accompanied by pillaging of rice stores and defiance of local authorities.

In 1962, there was an unusually heavy influx of refugees into Hong Kong who brought with them tales of great economic hardship on the mainland. China's large trade deficits with Australia, Canada and the other grain suppliers were offset by unusually large favorable balances of trade with Hong Kong and other areas in Southeast Asia. There are numerous other major aspects of China's foreign trade for the period 1950-1966 that might be considered, but these are glossed over for the purpose of concentrating on the topic at hand: an appraisal of the impact of the Great Proletarian Cultural Revolution on China's foreign trade and, insofar as can be determined at this time, its economy.

The impact of the Cultural Revolution, which began in mid-1966, on China's foreign trade was clearly negative. While exports and imports, and, consequently, total trade, were about one-seventh greater in 1966

than in 1965, the increase obviously would have been even larger had it not been for the chaos and confusion of the Cultural Revolution.⁷

In 1966, as compared to 1965, exports increased from \$2 billion to \$2.2 billion; imports increased from \$1.7 billion to \$2 billion; and total trade increased from \$3.7 billion to \$4.2 billion. Thus, the interruptions of domestic production, domestic trade and, consequently, foreign trade characteristic of the activities of the youthful, destructive Red Guards of 1966 do not show up in the statistics until 1967, when exports declined to \$1.9 billion. Imports likewise declined to \$1.9 billion. Total trade declined to about \$3.9 billion. The impact of the Cultural Revolution on foreign trade was continued into 1968 when both exports and imports declined slightly and total trade went down to \$3.7 billion.

Because 1968 was a relatively tranquil year, the Cultural Revolution having subsided early in that year, the foreign trade data for 1969 reflect the increased production and improvements in distribution facilities of 1968. Exports by China rose to \$2 billion, while imports remained virtually unchanged. Total trade at \$3.9 billion recovered to 10 percent below the record high of \$4.2 billion set in 1959, with the trend perceptibly upward.

Yet another trend was the increasing proportion of China's trade with noncommunist nations. By 1969, about four-fifths of its trade was with Japan. Western Europe, et al, and only one-fifth with its former Socialist allies. In the years 1966-1969, and particularly toward the end of this four-year period, China imported iron and steel; chemicals and chemical fertilizer; machinery and equipment, particularly for transportation; and non-ferrous metals.

TABLE I

CHINA'S FOREIGN TRADE, 1966-1969⁸

(US dollars in millions)

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
CHINA'S EXPORTS	2170	1915	1890	2020
CHINA'S IMPORTS	<u>2035</u>	<u>1945</u>	<u>1820</u>	<u>1835</u>
TOTAL TRADE	4205	3860	3710	3855
TRADE WITH NON-COMMUNIST COUNTRIES	3105	3060	2910	3070
TRADE WITH COMMUNIST COUNTRIES	1100	800	800	785

However, far and away, the single largest import continued to be wheat.⁹ During the period 1966-1969, China imported 18.7 million metric tons of wheat valued at nearly \$1.2 billion. Of this, sales by Australia and Canada accounted for 16.3 million metric tons of grain and about \$1 billion of the drain on China's foreign exchange. As these data may suggest, in 1969, of China's total imports valued at \$1.835 billion, only \$300 million came from Communist countries.¹⁰ For 1966, the total was \$505 million of a total of \$2 billion in imports.

Still other significant imports from 1966 to 1969 were those of iron and steel, particularly after the Cultural Revolution had subsided and China's industry was able to absorb such imports.¹¹ In 1969, imports of these products--mainly from Japan and West Germany--were up nearly one-fifth over 1968. Many countries, but again particularly Japan and West Germany, sold China large quantities of fertilizer and other chemicals throughout the four-year period. However, one important change occurred in 1969--China's imports of rubber increased by

50 percent over 1968. The rubber came mainly from the less-developed noncommunist countries of Southeast Asia to include Singapore, Malaysia and Ceylon.

On the export side, the 1966-1969 pattern was substantially similar to that for 1950 to 1965. The major export products continued to be foodstuffs such as animals, meat, fish, grains, fruits and vegetables; light manufactures such as textile yarn and fabrics, and clothing; crude industrial raw materials such as iron, steel, tungsten and mercury; and other crude raw materials such as textile fibers, animal materials, oil seeds and sundry chemicals.

As in the period 1950-1965, the chief markets for China's products from 1966 to 1969 were Hong Kong, Japan and Singapore. To a much lesser extent in absolute terms, the United Kingdom, West Germany, France, and Italy constituted important markets.¹² As suggested above, in the 1960s, Japan replaced the USSR as China's leading trading partner. In 1969, total trade between the two reached a record \$625 million, some one-seventh above the 1968 level and slightly above the previous high of \$622 million in 1966, before the full effects of the Cultural Revolution were felt in the foreign trade sector. In 1969, total two-way Sino-Japanese trade accounted for about one-sixth of China's world trade.

In 1970 and 1971, China's foreign trade not only equaled the previous record-high levels of 1959, but exceeded them.

In 1970, China's total trade came to within \$45 million of the 1959 total of \$4.265 billion, while, in 1971, it is estimated to have exceeded it by about \$385 million, reaching \$4.6 billion. China's exports, which, in 1970, were \$145 million below the 1959 level of

TABLE II

CHINA'S FOREIGN TRADE, 1959, 1970 AND 1971¹³

(US dollars in millions)

	<u>1959</u>	<u>1970</u>	<u>1971</u>
CHINA'S EXPORTS	2205	2060	2410
CHINA'S IMPORTS	<u>2060</u>	<u>2165</u>	<u>2240</u>
TOTAL TRADE	4265	4225	4650
TRADE WITH NON-COMMUNIST COUNTRIES	1310	3385	3630
TRADE WITH COMMUNIST COUNTRIES	2960	840	1015

\$2.2 billion, exceeded the 1959 level by about \$210 million in 1971. In 1970 and 1971, China's imports were \$105 million and \$180 million, respectively, above the 1959 level. One major difference between 1959 on one hand, and 1970 and 1971 on the other, is that, in 1970 and 1971, China's trade with the noncommunist countries accounted for about 70 percent of China's total trade, whereas in pre-Sino-Soviet rift 1959, it was only about 30 percent.

Among other significant developments in 1970 and 1971 were China's incurring of an unfavorable balance of payments in 1970 of \$105 million which was eliminated by a favorable balance of about \$170 billion in 1971.

Sino-Japanese trade continued to increase, reaching \$929 million in 1971, mainly because of sharply increased exports by China of food-stuffs, fiber products and other miscellaneous agricultural goods. Japan continued to pay for these products with exports of steel,

machinery, and chemicals--particularly fertilizer. It is militarily significant that, in 1970, Japan delivered 1.5 million tons of steel, 3.5 million tons of chemical fertilizer, 4500 trucks, and large quantities of machine tools to China. Commerce with Japan accounted for nearly one-fifth of China's total foreign trade.

It is also significant that Hong Kong-China trade rose in 1970 by 5 percent to a level of \$467 million. In 1971, it dropped back to \$431 million. Since 1949, the Hong Kong trade has been critically important to China as a source of foreign exchange with which to finance imports. In 1970, for example, China had a \$349 million favorable balance of trade with Hong Kong. This favorable balance more than offset its \$316 million deficit in trade with Japan. To put it directly, China's sales of food and other consumer goods to Hong Kong made possible the purchases of heavy industrial goods from Japan.

Other significant imports by China in 1970 and 1971 were: some 7.9 million metric tons of grain from Australia, Canada, and France; 40 locomotives from France; and 5500 trucks from sources other than Japan. As in previous years, in addition to Hong Kong, China exported consumer and light industrial goods to Singapore, Malaysia and other areas in Southeast Asia. These exports helped to pay for the imports.

II. Sino-American Trade

Between 1950, the year the PRC entered the Korean War and 1971, Sino-American trade was minimal (i.e., less than one million dollars annually) and was conducted sub rosa through Hong Kong. The miniscule commercial intercourse was between the Chinese government per se and individual U.S. tourists and business firms who unknowingly (and on

occasion even knowingly) violated a U.S. Government embargo on trade with the PRC. In May 1971, the U.S. Government removed all restrictions on dollar transactions between U.S. businessmen and banks with the PRC or its citizens; permitted U.S. airlines to carry cargo destined for China; removed a prohibition against American-controlled foreign flag vessels calling at Mainland China ports; permitted American oil companies abroad to sell fuel to PRC ships except those going to or from North Korea, North Viet Nam, or Cuba; and psychologically prepared the U.S. public for resumed trade with the PRC.¹⁴ In June 1971, President Nixon issued a long list of consumer and other products that U.S. businessmen might sell freely to the PRC, including wheat, flour, and other grains.

In February 1972, President Nixon made his historic trip to Peking and almost immediately Sino-American trade on a large scale began. In contrast to trade in 1971, which consisted only of \$5 million in U.S. imports, it amounted to over \$92 million in 1972 and for 1973 may well exceed \$350 million.¹⁵ As this is written in October 1973, informed observers believe it will reach the \$600 million to \$700 million level in 1974; with the final totals for 1973 and 1974 being heavily dependent on the composition and terms of the trade. Trade in higher priced industrial goods usually results in much larger monetary trade data than lower priced agricultural and other primary products. In addition, as with other countries, payments are made by the PRC upon delivery of goods and not upon the signing of contracts. The available Sino-American trade data for the years 1971-1973 (first quarter) are shown below.

TABLE III

SINO-U.S. TRADE, 1971-1973¹⁶

(US dollars in millions)

	<u>1971</u>	<u>1972</u>	<u>1973</u> (First Quarter)
U.S. EXPORTS	nil	60.0	33.5
U.S. IMPORTS	<u>5.0</u>	<u>32.3</u>	<u>14.0</u>
TOTAL	5.0	92.3	47.5

The 1972 trade data shown above in Table III do not include China's purchase in 1972 of 10 Boeing 707s, the first of which was delivered in August 1973 and hence will be included in the third quarter data for 1973.¹⁷ Also not included in the 1972 trade data are 80 aircraft engines from the United Aircraft Corporation to be delivered in 1973 and 1974. The plane and engine orders listed above amount to \$190 million in sales.¹⁸

Another major industrial sale to China by a U.S. firm was by the RCA Corporation. In August 1972, one of its subsidiaries signed a \$5.7 million contract to provide a satellite earth station in Peking and to expand another at Shanghai that had been installed earlier in the year. In October 1972, Western Union International signed a contract valued in excess of \$3 million to build a satellite earth station for China that would provide Peking with access to a satellite parked over the Indian Ocean. The U.S. company was also to provide China with a satellite link to Europe and Africa.¹⁹

In February 1973, a unit of Pullman Inc signed a contract to build three urea plants for China. When completed, their capacity will make

them the largest in the world.²⁰ In May 1973, Standard Oil of Ohio agreed to sell a catalyst needed by China to manufacture fibers. In May 1973, it was also reported that U.S. oil firms and the PRC were actively negotiating for cooperative exploitation of "massive underseas oil reserves" along the east and southeast coasts of the PRC. Teams of U.S. oilmen are known to have passed through Hong Kong to Peking in 1973, despite the official silence maintained by both the U.S. and the PRC. If consummated, the joint development program would require a minimum of five years to swing into production. It would also require an investment of perhaps \$10 billion or more for the first major phase alone.²¹ In June 1973, the U.S. Commerce Department reduced to 73 from 550 the number of commodities that require export licenses. This move made it still easier for U.S. industrial firms to trade with the PRC.

In 1972 and 1973, the U.S. sold not only industrial goods to China but grain, cotton, and other agricultural products as well. Of the \$60 million in U.S. exports in 1972, \$33 million represented wheat sales, \$23 million was for corn sales, and another \$2 million represented vegetable oils.²² On 5 February 1973, a Texas cotton cooperative reported the sale to China of 400,000 bales--some \$78 million worth--and an estimated 10 percent of expected worldwide sales by the U.S. in 1973. Within two weeks, China purchased another 200,000 bales at an additional cost of \$17 million from other southeastern U.S. firms.²³ These purchases from the U.S.A. accounted for over one-third of the 1,648,000 bales of cotton purchased abroad by China in the then current agricultural year. In early August 1973, a California cotton cooperative president reported that the PRC planned to buy up to a

million bales of cotton annually from his firm.²⁴ He had just returned from a trip to China. In late August, the U.S. Agriculture Department reported U.S. commitments to sell the PRC 750,000 bales of cotton (up 150,000 over previous data) in the 1973-1974 agricultural year plus another 87,500 bales to be delivered in the 1974-1975 agricultural year.

In 1973, the U.S. also sold wheat, corn, and soybeans to the PRC. As of July 1973, the total was 2.7 million metric tons of these three grains to be delivered in the 1973-1974 agricultural year; or nearly twice as much tonnage as was involved in the entire 1972 trade (about 1.48 million tons).²⁵

In reviewing the data available for 1972 and for 1973 to date, it is clear that in 1972 and 1973, China's total foreign trade and her trade with the U.S. increased sharply. See Table III above for the U.S. trade and Table IV below for the total world trade.

TABLE IV

CHINA'S FOREIGN TRADE, 1971-1973²⁶

(US dollars in billions)

	<u>1971</u>	<u>1972</u>	<u>1973</u> (First Quarter)
PRC EXPORTS	2.4	3.0	0.46
PRC IMPORTS	<u>2.2</u>	<u>2.7</u>	<u>0.39</u>
TOTAL	4.6	5.7	0.85

As noted above in Table IV, the 1972 increase in total foreign trade was \$1.1 billion or 24.7 percent over 1971; and it is likely that 1973 will show a comparably large increase in absolute terms at least over 1972. As noted above, Sino-U.S. trade alone in 1973 will probably

be \$260 million or so above the figure for 1972. In addition. Sino-Japanese, Sino-Canadian, and Sino-European trade levels are expected to increase at lower rates but rates sufficient to result in a total foreign trade for China in 1973 well in excess of \$6 billion and more probably closer to \$6.8 billion.²⁷ For 1974, ceteris paribus, the bilateral and total trade level data should be even higher. In the case of Sino-U.S. trade, for example, as noted above, a level of \$600 million to \$700 million seems likely, given the course of present developments.²⁸

III. Concluding Remarks

China's trade with the U.S. since early 1972 appears to be of significant value to the PRC, militarily as well as economically. In monetary terms, by the end of 1973, Sino-U.S. trade will probably account for about 5 percent of China's total foreign trade; and by the end of 1974, about 10 percent. However, the composition of the trade will probably be far more important to China than the 5 percent or 10 percent figures suggest. China has received, is receiving, and barring unforeseen events, will continue to receive products of great significance to her militarily as well as economically. These include, as noted above, jet aircraft and replacement parts plus machinery, equipment, and technological know-how of great value in pre-wartime and wartime environments. China is also receiving from the U.S. food and industrial raw materials needed to sustain the livelihood of her population. With the U.S., as with Japan, and even before Japan as with the USSR, the PRC is exchanging innocuous light consumer goods for strategic goods which her own socialistically-oriented economy is

unable to provide. In the long run, the goods the PRC is receiving will do much more for her than the bristles, antiques, raw silk, spices, etc. imported by the U.S. It may be advisable for the U.S. Department of Defense to review the matter with the U.S. Departments of Commerce and of Agriculture; and perhaps at an early rather than a later date.

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FOOTNOTES

1. Much of this section represents a summary of Sidney Klein, Politics Vs. Economics: The Foreign Trade and Aid Policies of China, Hong Kong, International Studies Group, 1968.

2. See U.S. Central Intelligence Agency, "Communist China's Balance of Payments, 1950-1965," and Robert L. Price, "International Trade of Communist China, 1950-1965," An Economic Profile of Mainland China, Washington, Joint Economic Committee, Congress of the United States, February 1967, Vol. 2, pp. 621-59 and 585-88, respectively.

3. Feng-hwa Mah, "The First Five Year Plan and Its International Aspects," in Three Essays on the International Economics of Communist China, ed. by Charles F. Remer, Westport, Conn., Greenwood Press, Inc., 1959, passim; and Walter Galenson, Economic Relations between the Soviet Union and Communist China, Berkeley, Calif., University of California, Institute of Industrial Relations Reprint Number 174, 1961, p. 38.

4. For an excellent analysis of some specific trade problems, see Feng-hwa Mah, "The Terms of Sino-Soviet Trade," The China Quarterly, Number 17, January-March 1964, p. 188 et seq.

5. For more details, see Sidney Klein, "A Survey of Sino-Japanese Trade," The China Mainland Review, December 1966, passim.

6. See, for Example, Colina MacDougall, "Trading Undisturbed," Far Eastern Economic Review, 29 September 1966, pp. 615-616.

7. For a roughly similar view, see Dwight H. Perkins, "Mao Tse-tung's Goals and China's Economic Performance," Current Scene, 7 January 1971, pp. 1-7, passim.

8. Editor, "China's Foreign Trade in 1969," Current Scene, 7 October 1970, Table I, p. 2; Editor, "China's Foreign Trade in 1970," Current Scene, 7 August 1971, Table I, p. 1.

9. See "Wheat for China," South China Morning Post, 27 May 1967, p. 11.

10. See Editor, "China's Foreign Trade in 1969," particularly Tables II and III, pp. 4-6.

11. Ibid., pp. 6-7.

12. Ibid., particularly Tables IV, V, and VI, pp. 7-13.

13. Klein, "Politics Vs. Economics," Table 1-1, p. 5; "China's Foreign Trade in 1970," Table I, p. 1; and data made available to me 4 January 1972 and 1 August 1973, by U.S. Consulate General, Hong Kong.

14. United Press International, "U.S. OKs Dollar Deals with China," Los Angeles Times, 8 May 1971, p. 1.
15. Data for 1971 and 1972 from U.S. Consulate General, Hong Kong, letter to author, 1 August 1973; 1973 estimate by author based on 1973 first quarter data also provided by U.S. Consulate General, Hong Kong, letter to author, 1 August 1973.
16. Ibid.
17. Reuters, "China Gets First 707," Los Angeles Times, 25 August 1973, p. 16.
18. "United Aircraft Sells 40 Engines to China," Wall Street Journal, 27 October 1972, p. 26.
19. "WUI Contracts to Build Satellite Station for China," Wall Street Journal, 25 October 1972, p. 34.
20. "China Gives Pullman Unit Contract for Urea Plants," Wall Street Journal, 15 February 1973, p. 12.
21. Robert S. Elegant, "U.S. and Peking Weighing Deal to Develop China's Offshore Oil," Los Angeles Times, 20 May 1973, pp. 1, 11, passim.
22. U.S. Consulate General, Hong Kong, letter to author, 1 August 1973.
23. See Associated Press, "Peking \$178 Million Order for U.S. Cotton Tops All '72 Sales," Los Angeles Times, 4 February 1972, pp. 1, 5, passim and Associated Press, "China Orders for U.S. Cotton Revised Higher," Los Angeles Times, 21 August 1973, Pt. III, p. 16.
24. "A California co-op said it expects to sell cotton to Mainland China," Los Angeles Times, 1 August 1973, Pt. III, p. 13.
25. See Associated Press, "U.S. Lists New Grain Sales to Russia, China, with Most of Total Coming from '73 Crops," Wall Street Journal, 12 July 1973, p. 13; and Reuters, "Sale of Corn, Soybeans to China Seen," Los Angeles Times, 4 August 1973, Pt. III, p. 10.
26. U.S. Consulate General, Hong Kong, letter to author, 1 August 1973.
27. Estimates by the author.
28. Ibid.

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(Contains much statistical data some of which are difficult to find elsewhere.)
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