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Law and Politics
in China's
Foreign Trade

Edited by

Victor H. Li

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Foreword

This symposium grew out of a conference jointly sponsored by the Subcommittee on Chinese Law of the Joint Committee on Contemporary China of the Social Science Research Council and the American Council of Learned Societies as well as Southern Illinois University at Edwardsville. The Contemporary China Institute of the School of Oriental and African Studies at the University of London hosted the meeting in London on 13-17 September 1971. In addition to the staff members of the subcommittee and the Contemporary China Institute, about twenty-nine scholars, diplomats, and business executives from Denmark, France, Germany, Great Britain, Italy, the Netherlands, Hong Kong, Japan, and the United States attended the five-day session.

The planning and organizational work of the conference started in 1970 under the energetic leadership of Professor Victor H. Li, then with the School of Law at Columbia University. The need for such an international symposium arose from the fact that aside from the few articles prepared by Li, Professor Jerome A. Cohen of the Harvard Law School, and myself, there was virtually no other scholarly exploration of the foreign trade law of the People's Republic of China in the United States, which at that time had been out of contact with the Chinese mainland for twenty-odd years.

Admittedly, in international trade, law is not an end in itself but it is a technique to achieve certain goals determined by economics and politics. Nevertheless, once a contractual arrangement is made, law becomes an important criterion by which the performance of each contracting party is judged. Moreover, China came to know the Western world mainly through commercial intercourse. The West-oriented rules and regulations that governed the Celestial Empire's trade relations with foreign powers on the basis of the

“unequal” treaties in the nineteenth century have left a permanent imprint in the memories of contemporary Chinese leaders. How the new China has formulated and applied its own rules and regulations in commercial transactions with other countries and how the new Chinese leaders have viewed the question of foreign trade in the context of China’s diplomacy are undoubtedly points of interest to all those concerned with Chinese affairs. This volume, which offers rich insights into both China’s trade system and her practical experience with individual countries, should serve as a useful guide to businessmen, lawyers, scholars, and government officials.

GENE T. HSIAO

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Acknowledgments

The conference which produced the papers in this volume was sponsored by the Subcommittee on Chinese Law of the Joint Committee on Contemporary China of the Social Science Research Council and the American Council of Learned Societies, and by the University of Southern Illinois, Edwardsville, with the cooperation of the Contemporary China Institute. I am extremely grateful to Gene T. Hsiao, Director of the Asian Studies Program, Southern Illinois University, Edwardsville, and to Stuart Schram, Head of the Contemporary China Institute, for their tremendous support and assistance. In this regard, very special and personal thanks of the highest order go to David Wilson, then editor of the *China Quarterly*, for his invaluable substantive and organizational contributions. I also wish to thank the other members of the subcommittee for their guidance and help: Dan Fenno Henderson, who was the initiator of this project, and Jerome A. Cohen, valued mentor and friend, as well as Bryce Wood and John Campbell of the Social Science Research Council for their staff support and their perceptive and kindly guidance of a novice through his first experience as a conference organizer.

In addition to the contributors to this volume, other participants at the conference included: Rolf Audouard, Association of Machinery Manufacturers, Frankfurt/Main; Françoise Baetz, CEGOS Corporation, Paris; William E. Butler, University College, London; John Gittings, London School of Economics; Christopher Howe, School of Oriental and African Studies; Gene T. Hsiao, University of Southern Illinois, Edwardsville; Marinus J. Meijer, Ministry of Foreign Affairs, The Hague; Peter Nolan, London School of Asian Studies; Jon Sigurdson, University of Sussex; Eduard Solich, East Asian Association, Federal Republic of Germany; and David Wilson, *China Quarterly*. We are especially grateful to the "old China hands" who generously

shared with us their unique knowledge and insights derived from many years of direct commercial and diplomatic dealings with China.

VICTOR H. LI

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Stanford, California
May 1976

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Introduction

Following the format of the conference, this volume is organized around a number of “country studies” which discuss the history and special characteristics of the trade between China and a particular country. We have tried to focus both on the practical how-to-do-it aspects of trade and on more general issues such as the relationship of politics to economics. These chapters are obviously not representative of China’s total world trade. They deal primarily with industrialized countries, in part because of our own interests and in part because of the availability of suitable data and authors.

Dan Fenno Henderson and Tasuku Matsuo begin the volume with a discussion of the experience of Japan. They show the great importance of political considerations in Sino-Japanese trade, but also explain that both sides are sometimes willing to let form prevail over substance when politics threaten to unduly disrupt economic relations. On the other hand, George Ginsburgs’ chapter on the rise and fall of Sino-Soviet trade is a prime example of the direct correlation between politics and economics. Perhaps of special interest to countries such as the United States are the harsh criticisms that came out in the 1960s concerning the conduct of trade in the 1950s. If political relations between China and the United States were to deteriorate at some future time, many of the seemingly routine petty annoyances of today’s trade might be viewed later as major disturbances.

Some of the studies on other countries deal with situations where politics has not played an important role. One of the most striking aspects of the chapter on the Federal Republic of Germany by Arthur Stahnke is China’s avoidance of stressing or creating political issues. Approaching the same problem from another angle, Poul Mohr’s description of the Danish experience indicates that being an early and firm friend of China does not necessarily

result in a boom in trade. The chapter on Sino-Italian trade by Gabriele Crespi Reghizzi raises the question of the extent to which recent major improvements in political relations will produce a corresponding increment in economic dealings. This is a complex issue since China is improving relations with many countries at the same time. The strongest case for demonstrating the separation of politics and economics is Hong Kong. Going beyond the fact that China tolerates a colony on its doorstep, Alan H. Smith shows the considerable extent to which China has penetrated the Hong Kong economic establishment and has used capitalist business forms. Finally, Stanley Lubman discusses the recent development of trade between China and the United States. Being a latecomer is a disadvantage since large parts of the China market have already been staked out by others; but this could be turned into an advantage if American traders would use the experience of their European and Japanese counterparts in dealing with China.

The other chapters in this volume present in a more systematic fashion a number of themes that run through the country studies. Anthony R. Dicks discusses the manner in which China, presently the world's largest charterer of ships, handles shipping and insurance matters, and also the procedures a foreign shipper must follow in dealing with Chinese port authorities and trading corporations. Frank Münzel describes the operation of the Chinese banking system, internationally and domestically, as it pertains to foreign trade. Both chapters show how closely China follows international practice.

Jerome A. Cohen deals with the question of the personal security of foreign businessmen in China and of Chinese commercial personnel abroad. He points out that the great majority of foreigners in China have not encountered any difficulty, although the risk of harassment is greater during periods of political radicalism. The chapter by Donald Klein describes the structure of the Chinese foreign trade apparatus, particularly the diplomatic and commercial establishments abroad. From studying biographical data, he also shows that the core of persons leading foreign trade work in China are highly experienced, and that there is considerable personnel interchange between governmental and "nongovernmental" trade organizations. I examine the operation of the trade apparatus within China. I treat the subject as a case study of the Chinese bureaucracy in action, paying particular attention to the balance between central control and local autonomy. Finally, Randle Edwards looks at Chinese efforts to control foreign trade and foreign traders with a historian's eye. He reminds us that many of the contemporary practices which appear novel and unique have counterparts in the eighteenth and nineteenth centuries.

The publication of this volume has been delayed. Several authors were prompt in submitting their articles. To these contributors the editor expresses his thanks. In other cases the authors were very late. The author apologizes to those who met the deadlines for himself and for those who did not.

But even when no unusual delays are encountered, scholars writing on current affairs face a seemingly insurmountable difficulty. There is always a substantial time-lag between the point at which research is completed and a paper is written, and the point at which the paper is actually published. During this period of time, however, events continue to take place and changes occur, often in fundamental ways.

The majority of the papers in this volume have been updated to cover developments up to 1972 or 1973. Where this has been done the appropriate cut-off date is indicated at the beginning of the chapter. The reader should note that some very important changes have taken place in Chinese trade patterns between 1973 and 1976. Total foreign trade, which remained at an annual level of around US \$4-5 billion for a number of years, has increased sharply. By the mid-1970s, the trade volume as a percentage of GNP has begun to approach the levels of the 1950s. During that first decade, the import of foreign plants, equipment, and technology played a major role in China's industrialization effort. It appears that foreign technical goods might once again be an important part of China's modernization plans for the coming years.

CHINA'S FOREIGN TRADE
(billions US \$)

	<i>Exports</i>	<i>Imports</i>	<i>Total</i>	<i>Balance</i>
1971	2.4	2.3	4.7	+ .1
1972	3.1	2.8	5.9	+ .3
1973	4.9	5.0	9.9	- .1
1974	6.5	7.5	14.0	-1.0
1975	6.8	7.2	14.0	- .4

In the mid-1970s China has developed a substantial trade deficit for the first time since the years immediately after Liberation. In partial response to this problem, China has begun exporting significant amounts of petroleum and has also increased use of short- and medium-term credits.

The developments in United States-China trade illustrate some of the concrete changes and constant patterns in Chinese trade practice.¹ The statistics are dramatic:

UNITED STATES TRADE WITH CHINA
(millions US \$)

	<i>Exports</i>	<i>Imports</i>	<i>Total</i>	<i>Balance</i>
1971	0	4.9	4.9	- 4.9
1972	63.5	32.4	95.9	+ 31.1
1973	740.2	64.9	805.1	+675.3
1974	819.1	114.7	933.8	+704.4
1975	303.6	158.3	461.9	+145.3

¹ The following summary was written together with Stanley Lubman.

The high volume of Chinese purchases in 1973 and 1974, and the resulting large trade imbalance, is attributable mostly to heavy Chinese purchase of American agricultural products. Foodstuffs, for example, comprise over 60 percent of American exports to China in 1973, and over 40 percent in 1974. For a complex of reasons, such sales dropped sharply in 1975. China's own harvest improved after several years of drought in the early 1970s; long-term agreements with Canada and Australia for wheat deliveries will supply much of China's on-going needs. In addition, the presence of smut on some American wheat sold to China in 1972-73 may have influenced later Chinese cancellations. Dissatisfaction with the slowness of progress toward "normalization" probably also influenced the Chinese to treat the United States only as a residual supplier of foodstuffs.

During 1972-76 relatively limited Chinese purchases of American capital goods disappointed some observers who had thought that Chinese interest in high technology products might lead to sustained major purchases. By early 1976 the largest transactions were for a total of eight fertilizer plants purchased in 1972-73 from the M. W. Kellogg Corporation of Houston, Texas, and the ten Boeing 707's purchased in 1972. Thereafter, some of the more notable Chinese imports of United States manufactures were geophysical and oil field equipment purchased from several companies, mining equipment and heavy trucks for use in mining operations, and a quantity of iron and steel scrap and aluminum. In addition, there have been several licensing agreements in the petrochemical area which involve a transfer of American technology to China. On the whole, however, Chinese purchases of technical good have not been large. Some of the reasons for this low level may be the general decline in Chinese capital purchases in 1974-76, a growing Chinese concern over trade deficits, the restraining influence of American export controls, the competitive strength of Japanese and European producers, and the slightly cooler climate of United States-China relations.

Chinese exports to the United States, although limited in volume, have grown steadily despite the high American tariff and the existence of nontariff barriers such as legal standards concerning quality to which imports from China, like those from elsewhere, must conform. The leading imports from China in 1975 were tea, cotton piece-goods, antiques, rosin, raw silk, bristles, fireworks, and baskets of straw, bamboo, and willow. The amount of Chinese cotton piece-goods entering the United States has begun to arouse protectionist sentiments, as has the growing import of Chinese frozen shrimp and other foodstuffs. Buttressed by the import-inhibiting tendencies of the high American tariff, domestic protectionism in the United States could have a significantly negative effort on importation of many of the Chinese products.

The Canton Fair continues to attract Americans, of whom some six hundred were expected to attend the Spring 1976 Fair. The bulk of the transactions concluded at the Fair continue to be Chinese sales, and indeed China's trade

deficit in 1974-75 was symbolized at the fair by the absence of Chinese negotiators interested in discussing machinery purchases. An increasing amount of business is being done between fairs by American exporters and importers who either go to China on special visits or who attend the growing number of specialized exhibitions of goods arranged by particular Chinese corporations. Travel has not only been in one direction. The Chinese remain very interested in studying American technology and in selling consumer goods to the United States, and have sent a series of technical and trade delegations here.

Chinese trade practices have not changed very much in 1972-76. They continue to adjust quite slowly to the American market. The stringent FDA standards remains a real obstacle to increased trade in foodstuffs, although in certain areas such as canned goods the Chinese have shown some movement toward adapting their products to the legal and practical requirements of the United States market.

The terms of Chinese export contracts also have changed very little, although in mid-1975 the Chinese began to sign contracts in U.S. dollars rather than insisting on RMB. Settlement of claims and disputes continues to be done through negotiations and compromise, and no institutional innovation has appeared in that respect.

In Chinese import contracts the most notable general development has been the purchasing of whole plants on credit or, as the Chinese put it, on "deferred payment" terms. Other Chinese purchases, however, continued to be for cash. There has also been considerable evolution of practice in negotiating the language of other contract clauses, such as the ones concerning *force majeure* and dispute settlement. On the latter point, the Technical Import and Machinery Corporations have agreed to clauses, sometimes quite detailed, providing for third-country arbitration. The Technical Import Corporation has also agreed to provide protection for patented technology and proprietary know-how in licensing agreements. No progress has been made on trademarks, however, and the Chinese continue to insist that under Chinese law foreign trademarks cannot be registered in the absence of a bilateral intergovernmental agreement. On the other hand, a Chinese trademark has been registered in the United States by an American distributor of the trademarked product, since United States law does not require reciprocity as a condition of registration of a foreign mark.

Perhaps the most important achievement among the past several years has been progress, albeit very slow, toward greater mutual understanding. American businessmen who care to do their homework need not regard China as *terra incognita*. There has been a growing number of sophisticated scholarly and technical books and articles published on Chinese trade, including a very informative journal published by the National Council for United States-China Trade, the *United States-China Business Review*. Presumably, continued

travel to the United States and contacts with businessmen and other Americans have produced a corresponding increase in Chinese knowledge of the American scene. Many obstacles to mutual understanding remain, however, between these two very different societies.

V. H. L.

Abbreviations

CFJP: Chieh-fang jih-pao (Liberation daily)

CHINCOM: China Committee of the Consultative Group of NATO

CCPIT: China Council for the Promotion of International Trade

CCP: Chinese Communist Party

COCOM: Coordinating Committee of the Consultative Group of NATO

CMEA: Council for Mutual Economic Aid

FKHP: Chung-hua jen-min kung-ho-kuo fa-kuei hui-pien (Compendium of laws and regulations of the PRC)

TYC: Chung-hua jen-min kung-ho-kuo t'iao-yüeh-chi (Collection of treaties of the PRC)

FLHP: Chung-yang jen-min cheng-fu fa-ling hui-pien (Compendium of laws and decrees of the central people's government)

CB: Current Background

EEC: European Economic Community

ECMM: Extracts from Current Mainland Magazines

FEER: Far Eastern Economic Review

FBIS: Foreign Broadcast Information Service

FTAC: Foreign Trade Arbitration Committee

GATT: General Agreement on Tariffs and Trade

GAC: Government Administration Council

JETRO: Japan External Trade Organization

JMJP: Jen-min jih-pao (People's daily)

JPRS: Joint Publications Research Service

MFT: Ministry of Foreign Trade

MFN: Most favored nation

NCNA: New China News Agency

PR: Peking Review

PRC: People's Republic of China

RMB: Renminbi

SCMP: Survey of China Mainland Press

TKP: Ta kung pao (Impartial daily)

TPA: Trade and Payments Agreement

PART I

*Patterns and Legal Aspects of
Trade between China and
Other Countries*

Trade with China: An Introduction

VICTOR H. LI

I. THE CHINA MARKET

After languishing for more than twenty years, "China trade" is again capturing the American fancy. Books, articles, and symposia abound on this subject, with quality sometimes overwhelmed by quantity. A great many companies are vying to attend the Canton Trade Fair; and countless persons, out of some appreciation of the nostalgic or the exotic, are building new collections of chinoiserie.

This attention is due in part to the fact that trade is symbolic of the dramatic shift in relations between the United States and the People's Republic of China. While ping-pong was the icebreaker, trade is one of the principal means by which the policies of the new detente are being manifested and implemented. Traders will be major points of contact between the two countries, and in that sense will act as the initial "ambassadors." All this is very well, though we should note that symbols are passing things which tend to pale as the novelty wears off. One symbol replaces another, just as trade has displaced ping-pong and pandas in the public eye.

A far more important reason for the interest in trade is the expectation held by many persons that a great deal of profitable business could be done with China. This is only partially true: a certain amount of business will be done, but perhaps not as much as some people might hope for. The overly optimistic estimates of the volume of China trade often stem from the myth that China is a market with hundreds of millions of consumers who will pay for Western industrial goods with still largely untapped minerals and raw materials. Visions of sugarplums appear when one considers the quantity of goods needed "if

NOTE: Portions of this chapter are derived from Victor H. Li, "Ups and Downs of Trading with China," *Columbia Journal of Transnational Law* 13 (1975): 371.

each person in China would purchase but a single unit." A century earlier some English textile manufacturers hoped to increase sales by convincing the Chinese to lengthen their shirttails by a little bit. *Oil for the Lamps of China* also reflected the belief that a little cup of oil multiplied several hundred million times comes to a huge quantity of sales.

This belief persists even today, despite repeated demonstrations that it is a myth and nothing more. In 1965 the Canadian minister of agriculture, Alvin Hamilton, said that "China is the largest single stable market in the world. It is not the market of the future—it is here now!"¹ Similarly, an officer of the Australian Primary Producers Union came up with the idea that "if every Chinese person used one woolen article a year, it would absorb the whole of the Australian wool clip."² He also suggested that Australian visitors to China might take along yarn and knitting needles in order to make the Chinese more "wool conscious." And not to leave out Americans, an officer of a major pharmaceutical company observed, perhaps in jest, that if every person in China with a headache would take two aspirin, that would consume all of his company's aspirin production. Suffice it to say, there is no market of 800 million. Whether in absolute or in per capita terms, a total foreign trade of even \$10-15 billion a year is very small.

What then is a more realistic expectation of the volume of trade between China and the United States? Prior to President Nixon's trip to China, a number of studies were carried out in the United States and elsewhere that tried to estimate the likely volume and commodity composition of future Sino-United States trade.³ Factors such as China's present economic capacity and anticipated future growth, the past patterns of Chinese foreign trade, the possible effects of Chinese acceptance of Western credits, and the probable American share of China's foreign trade were examined. Several of the studies concluded that trade might total several hundred million by 1975, and perhaps reach the one billion dollar level by 1980—although all were careful to stress the tentativeness of these figures.

¹ Henry S. Albinski and F. Conrad Raabe, "Canada's Chinese Trade in Political Perspective," in Arthur Stahnke, ed., *China's Trade with the West, A Political and Legal Analysis* (New York: Praeger, 1972), p. 92.

² Henry S. Albinski, *Australian Policies and Attitudes Toward China* (Princeton, N. J.: Princeton University Press, 1965), p. 267.

³ Robert F. Dernberger, "Prospects for Trade Between China and the United States," in Alexander Eckstein, ed., *China Trade Prospects and U. S. Policy* (New York: Praeger, 1971), p. 185; Victor H. Li, "Trade with China: A Cautionary Prospectus," in Stahnke, ed., *China's Trade*, p. 209. See also Feng-hwa Mah, *The Foreign Trade of Mainland China* (New York: Aldine, 1971); note 8 in the chapter by Henderson and Matsuo. For a contrary view, see David C. Buxbaum, "American Trade with the People's Republic of China: Some Preliminary Perspectives," *Colum. J. Transnat'l L.* 12 (1973): 39. The Japanese External Trade Organization estimated that Sino-United States Trade might be \$300 million by 1975. *Nihon keizai shimbun*, 4 August 1972, p. 9.

As things worked out the actual volume of trade exceeded even the rosiest of predictions. Trade increased at an almost exponential rate, growing from \$5 million in 1971 to \$96 million in 1972. In March 1973 Assistant Secretary of State Marshall Green said that trade might increase three- to four-fold that year. Even this estimate proved to be far too low. Actual trade for 1973 totaled \$805 million, making the United States the second largest trading partner of China after Japan.⁴ Chinese sales to the United States reached \$65 million, mostly in agricultural goods, raw materials, and manufactured items. The United States sold over \$600 million of agricultural goods to China, and more than \$100 million of machinery and equipment, chemicals, and manufactured items. The last figure includes about \$70 million from a contract for Boeing aircraft which was signed in 1972, but called for deliveries to be made in 1973 and 1974.

Clearly, something quite dramatic is happening here and poses many questions. What were the factors that contributed to the early estimates being so low and the actual figures being so high? Even more interesting, what will future Sino-United States trade be? Will it continue to increase at the present very rapid rate? One current estimate suggests that a 10 percent annual rate of growth is possible, leading to a total trade volume of \$2 billion (in 1973 prices) by 1980.⁵ On the other hand, might some of the constraints on trade suggested in the earlier studies still be correct? If so, the rapid expansion of trade during the past two years might not set the pattern for the future. There are already some indications that trade may be slowing down.⁶

In examining why the early projections were too low, some of the factors are fairly straightforward. These projections used fixed prices as an index; consequently, an upward adjustment must be made for the rate of inflation. In addition, the substantial devaluations of the dollar made American products much more of a bargain in the world market.

An important economic factor was that drought in both central and north China reduced the 1972 grain harvest by about 10 percent. The resulting deficit was further aggravated by the continuing efforts to build up grain stockpiles against the danger of war with the Soviet Union (a major slogan of this period has been Dig Deep Tunnels, Store Grain Everywhere), and to

⁴ National Council for United States-China Trade, *Special Report No. 7—Sino-U. S. Trade Statistics 1972-1973 Including Agricultural Trade*.

⁵ Alexander Eckstein and Bruce Reynolds, "Sino-American Trade Prospects and Policy," *Am. Econ. R.* 64 (May, 1974): 294; see also David L. Denny and Daniel D. Stein, "Recent Developments in Trade Between the U. S. and the P. R. C.: A Legal and Economic Perspective," *Law and Contemporary Problems* 38, no. 2 (Summer-Autumn, 1973), p. 260.

⁶ See, e.g., Robert S. Elegant, "China Must Hustle to Pay for Imports," *Los Angeles Times*, 2 June 1974, part 8, p. 1; Christopher Lewis, "An End to the Bargain Days," *FEER*, 86, no. 39 (4 October 1974), p. 11.

convert grain lands to cotton lands. In any case yearly Chinese purchases of grain from abroad, which had averaged 5–6 million metric tons (mmt) in the early 1960s and had decreased to 3–5 mmt in 1967–72, grew in 1973 to over 7 mmt. This increased need combined with readily available American supplies produced the largest item in Sino-United States trade in 1973.

A number of political considerations also affected trade. Rapprochement between the two countries took place much faster than anticipated. The transition from hostility just prior to Mr. Kissinger's "Pakistani stomach ache" to the establishment of quasi-official liaison offices occurred in less than two years. As discussed in the chapter by Stanley Lubman, trade was an integral part of this normalization process. The initial gestures made by the United States to improve relations consisted of a series of steps that dismantled the American embargo. Thereafter, trade appeared to have been regarded by both sides as a manifestation of better political relations and a measure of how well things were going. One of the specific areas of agreement announced in the Shanghai Communique concerned the improvement of trade relations. The United States government has actively supported trade by facilitating the granting of export licenses, giving advice to businessmen, and helping form the National Council on United States-China Trade. By the same token, larger and larger numbers of Americans have been invited to visit China to do business.⁷ American businessmen also may have benefited directly from the Chinese interest in building a sunny political climate by having been favored over "equivalent" foreign competitors.

The large volume of trade with the United States also reflected some basic policy decisions made in China. In the 1950s foreign trade played an important role in Chinese economic development, particularly in the effort to industrialize.⁸ All this changed in the 1960s. Still burdened by the American embargo and by the International Coordinating Committee on Strategic Trade with Communist Countries (COCOM) restrictions, and seeing relations worsen with the Soviet Union, China emphasized even more strongly the principle of self-reliance. This was done in large part to avoid being overly dependent on other countries for goods, technology, and spare parts—an economic dependence that would limit China's ability to be politically independent and militarily secure. As a consequence the importance of foreign trade declined, and the annual volume of trade remained at a \$4–5 billion level from 1958 until 1971. China also paid cash for all purchases, thus further reducing dependence on foreign countries.

⁷ See National Council for United States-China Trade, *Special Report no. 5—U. S. Participants at the Spring and Fall Kwangchow Fairs, 1971–73*.

⁸ See generally Alexander Eckstein, *Communist China's Economic Growth and Foreign Trade* (New York: McGraw-Hill, 1966); Eckstein, ed., *China Trade*; Feng-hwa Mah, *Foreign Trade*.

In late 1971 or early 1972 it appears that a basic decision was made to once again emphasize the importance of foreign trade in economic development. While the principle of self-reliance was still upheld, there was new stress on the idea of "exchanging needed goods." China began to buy large quantities of plants, machinery, and equipment from abroad. The volume of trade jumped to over \$10 billion in 1973.⁹ China also used medium term credits for a number of purchases and made fairly extensive inquiries about credit in general.

All the above factors contributed to the banner year for Sino-United States trade in 1973. If one takes a three- or five-year time prospective, what might the events of the past two years lead us to expect for future trade? I enter this area with considerable trepidation, both because forecasting is dangerous business and because past batting averages have not been good. I stress the speculativeness of this effort, the main point of which is to warn against over-optimistic expectations. I also am intentionally leaning toward a conservative point of view. This is due in part to the fact that I believe the conservative estimates to be more correct, and in part to balance the optimism that already abounds. For example, the volume of Chinese purchases of American grain may fall, perhaps as early as 1974. On the American side much less grain is available for sale and at considerably higher prices. The recent curtailment of wheat exports to the Soviet Union also must worry the Chinese buyers, although no comparable problems have yet arisen in Sino-United States trade.

More importantly, China may be wanting to buy much less grain. As mentioned earlier, China had a poor harvest in 1972. From both Chinese statements and Western estimates, however, it appears that the 1973 harvest matched or exceeded the output of the record 1971 harvest.¹⁰ Moreover, as the danger of war subsides and as the stockpiling program moves forward, the amount of grain needed for storage will also decline. If this analysis is correct, then China's 1974 grain imports may not exceed the 1973 quantity and may even fall below that level. More specifically, some estimates made in 1973 suggested that China will import a total of 9 mmt of grain in 1974;¹¹ preliminary trade figures indicate that China probably will import only about

⁹ Elegant, "China Must Hustle;" Wang Yao-ting, "China's Foreign Trade," *Peking Review*, 17, no. 41 (9 October 1974), p. 18. See also, "China's Role in the World Economy," *Stanford Journal of International Affairs* 10 (1975):1-82.

¹⁰ "1973 All-Round Rich Harvests in China," *Peking Review*, 17, no. 1 (4 January 1974), p. 8; see also Peter Weintraub, "An Introduction to Chinese Agriculture," *U. S. China Business Review*, 1, no. 2 (March-April 1974), p. 38; Denny and Stein, "Recent Developments;" Leo Goodstadt, "Struggle Against the Elements," *FEER*, 86, no. 39 (4 October 1974), p. 15.

¹¹ "China's Agricultural Trade," *U. S. China Business Review*, 1, no. 2 (March-April 1974), p. 41.

7 mmt. Of this amount 4 mmt of wheat are being supplied through three-year contracts with Australia, Canada, and Argentina, leaving maximum American sales of approximately 2 mmt of wheat and 1 mmt of corn—figures that are below the 1973 level.

Possible losses in grain sales, which constitute 60 percent of American exports to China, might be offset by increases in other categories. Despite dwindling fiber reserves and rising prices cotton sales to China should continue to grow. China's need for cotton will not decline. This is a variation on an old theme: increasing each person's cloth ration by one yard would require 800 million yards of cloth, which in turn would require large investments of factories and land. It will also be some time before synthetic fibers can begin to overcome this problem. The largest increase in trade will be in American sales of plants, equipment, and other technical products. In 1974 sales of such goods is likely to be several times those of 1973.¹²

Chinese exports to the United States will also increase, especially if China receives most-favored-nation treatment. This rise, however, probably will be quite small. It appears that China is now exporting to near the limits of its economic capacity; some businessmen, for example, at times refer to the Canton Export Commodities Fair as the Canton Export Allocation Fair. As the economy grows more goods will be available. A substantial part of the increment, however, will be consumed within the country rather than used for export. In addition, almost three-fourths of China's exports are foodstuffs and textile products. Neither of these items will find a great market in the United States, and indeed may encounter resistance from American producers in the same areas.

Any substantial increase in Chinese exports is likely to come in the area of oil and other natural resources. China exported oil for the first time in 1973, selling a million tons of crude to Japan. The potential for oil sales is considerable. Present Chinese oil production is estimated at 50 million tons a year and exceeds refining capacity by over 10 million tons.¹³ While China recognizes that "increasing oil exports have provided China with a greater possibility for further developing her foreign trade,"¹⁴ the actual volume of oil exports has not been large. Japan, the principal purchaser of Chinese oil,

¹² See generally "Major U. S. Plant, Equipment, and Technology Sales to China" *ibid.*, p. 10; "Plant Sales to China 1973," *ibid.*, p. 36; "Plant Sales to China Under Negotiation," *ibid.*, p. 38; Elegant, "China Must Hustle."

¹³ See, e.g., Christopher Lewis, "Outlook Bright for Oil, Coal," *FEER* 86, no. 39 (4 October 1974): 21. For slightly earlier figures, see Peter Weintraub, "China's Oil Production and Consumption," *U. S. China Business Review*, 1, no. 1 (March–April 1974), p. 29.

¹⁴ Wang, "China's Foreign Trade."

will be able to buy 4 million tons of crude in 1974 and more in 1975.¹⁵ Nevertheless, the potential for substantial Chinese exports remain.

The political issues affecting trade are even more interesting. For one thing, how permanent is the swing toward emphasizing foreign trade? It appears that important segments of the Chinese leadership feel ambivalent about the question of whether an increase in foreign trade, and therefore an increase in the dependence on foreign goods and technology, might imply a partial abandonment of the basic principle of self-reliance. For example, a recent article praised the growth of foreign trade as a means of "mutual economic development" based on "the principles of equality and mutual benefit and supplying each other's needs."¹⁶ At the same time, however, the article also stressed "building the country independently, through self-reliance," and "relying on [the Chinese people's] own strength and wisdom and using their domestic accumulation funds and their own natural resources." Similarly, an article that proudly described the building of Shanghai's industry through self-reliance and without the aid of foreign ideas, capital, or goods also criticized as "superficial" the idea that self-reliance is equivalent to not importing.¹⁷

Self-reliance was born during the 1930s and 1940s when the Communist movement was weak and isolated. It came into full force after Liberation when first the Western embargo and later the Sino-Soviet split severely limited China's access to foreign goods and technology. Perhaps it is that habits and ideas of long standing are hard to change quickly, especially when they involve a principle that has been critical to China's political and economic development during the past quarter century. Or perhaps some people believe that the long-term benefits of self-reliance, such as the developing of domestic manpower skills and the avoidance of dependence on things foreign, outweigh the short-term economic benefits of getting access to foreign technology and goods.

There may also be some discomfort within the Chinese leadership about the process of normalization of relations with the United States. Some persons may still believe that American imperialism continues to be an active and aggressive threat which must be countered with equal force rather than through peaceful economic competition. Others might feel that normalization is proceeding too slowly; besides failing to formally recognize the People's Republic of China, the United States has sold additional arms to Taiwan and has even allowed Taiwan to open new consulates in Portland and Kansas City.

¹⁵ *Ibid.*; Nicholas C. Chriss, "Offshore Oil—China Has Plenty For Lamps and Maybe For World," *Los Angeles Times*, 27 April 1974, p. 10; "Oil—China Has Plenty, Sells Little," *Christian Science Monitor*, 12 July 1974, p. 4; Lewis, "Bright Outlook."

¹⁶ Wang, "China's Foreign Trade."

¹⁷ "Taking the Road of Self-Reliance," *Peking Review*, 17, no. 42 (18 October 1974), p. 5; note 9, *supra*.

In order to induce the United States to proceed with normalization, China might move to restrict trade with the United States. Thus, just as trade has occupied a leading role in the development of the rapprochement, it could also bear the brunt of any disruption of the newly established political relationship.

I repeat that I am intentionally stating a bleaker case than I believe. I do so to point out the possibility that trade might level off, or even decline, as early as next year. The decline may be due to perfectly understandable economic reasons. It may also result, however, from changes in China's political policies, both domestic and international. That is, if rapidly rising trade were to be regarded as an indication of improving political relations, then decreased trade might be interpreted as a deterioration of the political climate. Such an interpretation would be a mistake if the reasons for the decline are economic. On the other hand, the decline might be a result of changes in Chinese political policies, changes first signaled in trade patterns.

The actual situation is much brighter. Despite the improved harvest and the export-import imbalance, the level of Sino-United States trade has kept up. And despite the renewed emphasis on self-reliance and the problems of political succession, there are no clear indications that present trade policies will not continue into the indefinite future. Sales of American technical and agricultural goods to China and continued promotion of Chinese exports to the United States will remain mutually beneficial.

In the longer range there are enormous opportunities for joint economic effort. For example, there appear to be very large oil reserves on the Chinese mainland and in the adjacent continental shelf.¹⁸ In addition to domestic use China might sell a portion of this oil to obtain large amounts of foreign exchange which could purchase foreign technology and goods for China's economic development. The United States and Japan both have great oil needs, needs made even more clear by the recent events in the Middle East. It must be stressed, however, that I am speaking only of the potential for international cooperation in this area. Actual transactions concerning oil development have been quite limited.¹⁹

One cannot help but wonder whether these oil hopes are just another version of the myth of the China market which, like its many predecessors, may well produce far more expectations than results. For example, because of strategic considerations or a desire to maintain the principle of self-reliance, China might decide to reject, or at least severely limit, foreign participation in her oil development. This would mean that the entire project must proceed much

¹⁸ Victor H. Li, "China and Off-shore Oil: The Tiao-yü Tai Dispute," *Stanford Journal of International Affairs* 10 (1975): 143; Nicholas Ludlow, "China's Oil," *U. S. China Business Review*, 1, no. 1 (January-February 1974), p. 21.

¹⁹ "Oil Technology and Equipment to China," *ibid.*, p. 31; see also note 16, *supra*.

more slowly, but it also would mean that China can avoid repeating the past history of foreign intrusion into Chinese society. I may be sounding too sober a note in this discussion of the volume of China trade. Yet I do think that greater sobriety is needed here, for unrealistically high expectations will lead to disappointment and frustration. This in turn might lead to an effort to remove the "causes" of the frustration. Such a sequence of events is not a parade of horrors, but rather a partial description of the history of foreign influence in China during the past two hundred years.

Finally, while we should be pleased with the course of Sino-United States trade, we ought not let our optimism get out of hand. Some estimates made in 1973 suggesting that the 1974 level of trade would be \$1.25 billion or more now appear to be overly optimistic. Preliminary trade figures indicate that total trade in 1974 is likely to be just under \$1 billion. Still, a billion is an impressive figure for dealings between two countries that have considerable political and economic differences. At the same time, a billion is not a large figure, especially when one considers that it represents only about 1 percent of over-all United States foreign trade. Surely, a number of persons will do quite well in this trade, but equally surely, the total profits available are barely able to justify the quantity of high-priced business and professional talent that is presently turning its attention to this subject.

II. THE STUDY OF CHINESE FOREIGN TRADE PRACTICES

Although I am suggesting that China's foreign trade is of passing symbolic interest and limited economic significance, there is still another reason that makes trade an important subject of study. Trade, after all, is not conducted in a vacuum or in the abstract. It is a part of the over-all activities of a society, and as such reflects the same concerns and attitudes that influence the society's actions in other areas. This is especially true of the PRC where trade is state-managed and centrally controlled. Thus, a careful examination of China's trade practices will help answer questions such as how trade is used as an instrument of foreign policy, or what contractual forms are favored by the Chinese. More than this, however, using foreign trade as a case study, we should be able to derive valuable insights into more general issues such as how central policies (here, central trade policies) are formulated and articulated, by what processes are these policies implemented, what political or bureaucratic problems arise in the course of implementation, and whether there are clearly preferred work styles or methods of implementation.

Indeed, focusing on trade as a means of studying China has some distinct advantages. For example, China specialists are concerned about the insufficiency of data for their research and about the need to rely heavily on Chinese sources and on interviews with refugees. In the area of trade, however, the "traditional" sources can be supplemented by information from China's

trading partners, on both the governmental and the private levels. Not only are these new and independent sources of data, but equally important, they bring fresh points of view to the picture—points of view that were developed through actual dealings with real people in practical matters, and thus balance the more detached and theoretical approach of the academic community.

Despite the advantages, the study of trade practices is an academically under-developed area in Chinese studies. With the exception of several studies on the volume of trade and on the role of trade in economic development,²⁰ there is lacking a well-organized intellectual framework for analyzing the available information and for helping to expand our knowledge into broader and more far-reaching generalizations. Perhaps this situation is due to the fact that trade studies fall into the interstices among various academic disciplines such as economics, political science, and law, and consequently receive inadequate attention from all of them.

In this preliminary effort I am not able to propose a thorough and viable intellectual framework. Instead, let me sketch out several issues that arise in a number of the subsequent chapters and suggest what they might tell us more generally about China.

One striking feature of Chinese foreign trade practice is the manner in which disputes are resolved. The chapters by Gabriele Crespi Reghezzi (trade with Italy), A. R. Dicks (maritime law), Dan Fenno Henderson and Tasuku Matsuo (trade with Japan), Poul Mohr (trade with Denmark), and Arthur Stahnke (trade with West Germany) all deal with this issue at some length. They indicate that except for the import of complex and large-scale technical products, the Chinese generally insist on using their own standard form contracts for all transactions.²¹ These contracts almost always contain a clause that urges the parties to try to settle all disputes through friendly negotiations; where this is unsuccessful, the dispute is to be submitted to arbitration—usually to a tribunal in Peking, but sometimes in the country of the defendant or a neutral third country. None of this is particularly unusual. What is unusual is that, with the exception of some maritime matters, *virtually no* trade cases have been arbitrated, in Peking or elsewhere. Indeed, several of the chapters cite instances where foreign traders seeking to arbitrate disputes in Peking were rebuffed by the Chinese and were occasionally even criticized for violating the “friendly negotiations” clause in attempting to bring the

²⁰ Eckstein, *Communist China's Economic Growth*; Samuel P. S. Ho and Ralph W. Huenemann, “Canada's Trade with China: Patterns, Policies, and Prospects” (Discussion paper no. 71, University of British Columbia, Department of Economics, 1972); and notes 2 and 3, *supra*.

²¹ See the contract forms reproduced in the appendixes; see also, Alan H. Smith, “Standard Form Contracts in the International Commercial Transactions of the People's Republic of China,” *International & Comparative Law Quarterly* 21 (January 1972): 133.

dispute to arbitration. In addition, except for some fairly specialized Hong Kong cases, there also have been no legal suits concerning trade. If nothing else, the arbitration clause effectively prevents a court of law from asserting jurisdiction.

Surely it cannot be that no disputes have arisen in a trade that totals several billions of dollars a year. How, then, are disputes resolved? The Chinese usually answer that since the parties to the dispute are reasonable men, "friendly negotiations" always produce a result that is satisfactory to all. This answer leaves the somewhat litigious and breach-minded Western lawyer—though perhaps not the performance-minded Western businessman—a little uncomfortable. Nevertheless, it makes good sense and works quite well in the context of Chinese trade.

An important factor in ensuring that negotiations alone will indeed produce satisfactory results is that the Chinese appear to be very careful in developing relations with their trading partners. The chapters mentioned above and the chapters by Jerome Cohen (status of businessmen), Stanley Lubman (trade with the United States), and Alan Smith (trade with Hong Kong) all stress the direct relationship between "friendliness" and successful trade. This may take the form of disfavoring foreign traders whose governments are not on good terms with the Chinese government, favoring foreign traders who themselves have proven to be friendly and reliable, or taking special care of "old friends" of China.

From this complex picture one of the basic patterns that emerges is that the Chinese try to develop trading relations very slowly. Although a foreign trader may wish to enter into substantial dealings right away, the Chinese prefer limited transactions in the beginning. There is a "feeling out" process, during which the amount of dealings is gradually increased. At some point friendliness and reliability are established; then the relationship advances to a higher level involving easier and more frequent contacts and substantially larger transactions.

How this affects dispute resolution is that during the "feeling out" period, either side can readily terminate the relationship if it feels that the other side is unreasonable or too difficult to deal with. The amounts of the transactions are still small enough so that termination does not result in undue loss. The Chinese appear willing to write off some of these losses rather than go through a lengthy and formal dispute resolution procedure. On the foreign trader's side the expectation of increased future dealings and profits often helps to foster a spirit of cooperativeness.

By the time the higher level of relationship is reached, presumably the more difficult trading partners have already been weeded out. The others now enter into a whole network of dealings with the Chinese trading corporations, a network that not only encompasses a large number of separate transactions but also continues over a long period of time. In such a situation the primary

objective of both sides is to develop this ongoing, mutually beneficial relationship. If one aspect of the relationship encounters difficulty—for example, if a particular contract is not carried out—both sides will be more concerned with preserving the over-all relationship than with asserting one's "rights" under the breached contract to the fullest extent. And, since there are many other contracts present and future, the exercise of restraint by the aggrieved party in this instance helps ensure that the other party will act with equal restraint when the shoe is on the other foot. All this forbearance and understanding contribute greatly to the success of "friendly negotiations." Only in the most extreme cases when there is a breakdown in the overall relationship, such as the Vickers-Zimmer case cited by Mr. Cohen, does this method of dispute resolution fail. Then the parties involved must resort to arbitration or some other procedure.

I am not suggesting that establishment of the ongoing and mutually beneficial relationships described above is the sole reason why arbitration is not used in Chinese trade. One might also cite cultural factors such as the Chinese preference for mediation over adjudication.²² Perhaps more to the point, the extensive negotiations that often precede the signing of a contract undoubtedly clarify the obligations and expectations of both sides, and thus reduce the chances for misunderstandings later on. The Boeing transaction, reportedly negotiated over several months and resulting in a book-length set of contracts, may be an example of where careful negotiations substituted in part for the lack of a pre-existing and more extensive relationship. Along a different line some foreign traders might add their own "China differential" to make up for the possible difficulties in carrying out "friendly negotiations." Despite all these considerations, I am suggesting that thinking of China trade within the framework of maintaining continuing relationships renders the absence of arbitration or judicial resolution of disputes more understandable.

We can try to press further into other aspects of Chinese studies by applying the framework of continuing relationships to nonforeign trade matters. For example, the Chinese use essentially the same "friendly negotiations" formula in describing how interenterprise and intraenterprise disputes within China are resolved.²³ The domestic situation is quite different, of course, since no aliens

²² Stanley Lubman, "Mao and Mediation: Politics and Dispute Resolution in Communist China," *California Law Review* 55 (November 1967): 1284; Jerome A. Cohen, "Drafting People's Mediation Rules," in John W. Lewis, ed., *The City in Communist China* (Stanford: Stanford University Press, 1971), p. 29. See generally Jerome A. Cohen, *The Criminal Process in the People's Republic of China, 1949-1963: An Introduction* (Cambridge, Mass.: Harvard University Press, 1968).

²³ "A Brief Discussion of the Nature and Functions of Economic Contracts in Industry," *Ching-chi yen-chiu* (Economic research), no. 2, (1965), pp. 33-38, transl. in *JPRS*, no. 31, 033 (12 July 1965); Richard Pfeffer, "The Institution of Contracts in the Chinese People's Republic," *China Quarterly*, no. 14 (April-June 1963), p. 153;

are involved and since the participants presumably possess a far higher degree of shared values and understandings. Even so, we are basically dealing with transactions and processes where the parties have dealt with each other before and will continue to deal with each other over a wide variety of matters in the future. Consequently, the same arguments raised in the earlier discussion of foreign trade, concerning the exercise of restraint and the reliance on friendly negotiations, would apply. This, in turn, would help explain why virtually no disputes involving enterprises reach the courts and why, with some very limited exceptions, there is no Soviet-style system of *arbitragh*.

Going further, it seems clear that the process of friendly negotiations works best in simple repetitive transactions. It also works well in a highly decentralized system where most of the suppliers, producers, and consumers are local people in close and constant contact with each other. The question arises concerning what will happen as economic transactions cover larger geographical areas and face-to-face dealings become more difficult, or as greater economic diversity produces more one-shot transactions which are not part of a network of continuing relationships. It may be that in such situations the domestic contract negotiation process and the contract forms resemble what we find in foreign trade, or even that some third-party arbitration or adjudication is needed to resolve disputes.

The concept of continuing relationships can also be applied to the study of interpersonal dealings and disputes.²⁴ In this instance the concept is quite similar to describing relations within a village, a small town, or some other closely knit community in China or elsewhere. Most problems are handled through a form of "friendly negotiations" where differences are adjusted through discussions and social pressure. Again, only in extreme cases would outside agencies be called in. Thus, a very small percentage of "civil" disputes reach the courts, and the criminal process would not be invoked except in most serious circumstances.

An interesting Chinese contribution in this area is that they have managed, whether by design or by accident, to maintain the network of continuing

Richard Pfeffer, "Contracts in China Revisited with a Focus on Agriculture, 1949-1963," *China Quarterly*, no. 28 (October-December 1966), p. 106. See also three articles by Gene T. Hsiao: "Communist China's Foreign Trade Organization," *Vanderbilt Law Review* 20 (March 1967): 303; "Communist China's Trade Treaties and Agreements (1949-1964)," *Vanderbilt Law Review* 21 (October 1968): 623; "Communist China's Foreign Trade Contracts and Means of Settling Disputes," *Vanderbilt Law Review* 22 (April 1969): 503. Much can also be learned from studying the American experience in trading with the Soviet Union; Samuel Pizar, *Commerce and Coexistence* (New York: McGraw-Hill, 1970); James J. H. Giffen, *Legal and Practical Aspects of Trade with the Soviet Union* (New York: Praeger, 1969).

²⁴ Victor H. Li, "The Role of Law in Communist China," *China Quarterly*, no. 44 (October-December 1970), p. 66; Stanley Lubman, "Form and Function in the Chinese Criminal Process," *Colum. L. R.* 69 (April 1969): 535; note 7, *supra*.

relationships in urban areas. Rather than slowly building contacts as in the field of foreign trade, the Chinese have delegated a very wide range of responsibilities to neighborhood organizations. In carrying out these responsibilities, neighbors must deal with each other, and in the process, develop an extensive interpersonal network. A kind of "second village" has been established in the cities, which has helped to reduce some of the problems of urbanization, such as crime and a sense of isolation.

Speculating even further and along a different line, do the Chinese use the "feeling out" technique in their nontrade international relations? That is to say, during the initial period of dealings with another state, the principal issue may be the testing of each other's good faith. Sensitivities are particularly keen, and a relatively minor incident can jeopardize the entire relationship. Thus, after the 1956 agreement on repatriation of nationals between the United States and China, mutual suspicion and misunderstanding quickly led to a belief that good faith was lacking, and a breakdown in relations resulted.²⁵ Are we now in another period of testing for good faith? If so, we should tread particularly carefully; but we can also look forward to a substantial improvement in relations once this stage is past and the next higher stage is reached.

The above discussion of the "nonarbitration" clause should not lead one to think that Chinese and Western foreign trade contract terms and practices are vastly different. Indeed, I am struck by their similarity, all the way down to China's altering of some terms for import and export trade, so that the Chinese party would be favored in any case. Aside from the arbitration clause, some major differences that can be seen in the Chinese contracts reproduced in the appendixes are: a somewhat vague and variable *force majeure* clause, a strong preference for binding certification by the Chinese Commodity Inspection Bureau (which, incidentally, has a good reputation in the international trading community); and two political matters, the preamble in the Japanese contracts, and the refusal of Chinese banks to issue confirmed letters of credit on the grounds that the promise of a Chinese bank is totally reliable and hence need not be confirmed. None of these is especially significant. Moreover, the chapter on banking by Frank Münzel and the chapter on maritime law by A. R. Dicks show the great extent to which China uses internationally developed and accepted forms and customs, although Mr. Dicks points out that some shipping and insurance clauses have been "Sinicized." Both the contract forms and reports from Western businessmen indicate that the persons handling China's foreign trade possess considerable trade expertise.

The question of why China follows international trade practices to such a large extent is worth more thought. If the reason is that China has no other

²⁵ Kenneth T. Young, *Negotiating with the Chinese Communists: The United States Experience, 1953-1967* (New York: McGraw-Hill, 1968).

choice if it wishes to engage in beneficial trade, then does this suggest that adopting a hard line, at least in some areas, will yield good results? Or what is more likely, if China adheres to international practice because this is a convenient and effective way of conducting its affairs, then a major effort ought to be made to identify other substantive and procedural areas of potential agreement. This inquiry could be quite far-reaching. For example, Alan Smith's chapter on Chinese businesses in Hong Kong describes a Chinese willingness to use capitalist business forms that goes well beyond mere tolerance or accommodation.

One need not dwell on the subtleties of arbitration clauses and contract terms to find connections between foreign trade practices and Chinese attitudes and actions in other areas. The most obvious example of such a connection is the fascinating intertwining of political and economic considerations in Chinese foreign trade policy, including the manner in which trade is offered or withheld to encourage or chastise a given foreign government. Most decisions, of course, involve some combination of politics and economics, but the particular proportions seem to vary greatly over time and from place to place.

For example, the chapter on trade with the Soviet Union by George Ginsburgs gives a trade's-eye view of the development of the Sino-Soviet dispute. During the early years, the volume of trade was large and was conducted in an apparently amicable fashion. As the dispute heated up each side, with the benefit of hindsight, began castigating the other for the manner in which it had earlier carried out its trade and aid obligations. At the same time the volume of trade fell sharply from a high of about \$2 billion in 1959 to only about \$100 million in the late 1960s.

The Japanese case is the converse. Beginning with a total embargo on trade at Liberation, Japan is now China's foremost trading partner, handling over \$2 billion of goods a year. This volume has increased with the recent establishment of diplomatic relations between the two countries. Even so, the growth of Sino-Japanese trade has not been a smooth process. Dan Fenno Henderson and Tasuku Matsuo describe how trade dropped from over \$100 million to about \$20 million after the 1958 Nagasaki flag incident, and how it did not fully recover for five years. This episode is a prime example of China's willingness to sacrifice economic benefits, its own as well as those of friendly Japanese traders, to make a political point. But it also illustrates Chinese economic pragmatism: the authors suggest that the improvement in Chinese attitudes towards trading with Japan during the early 1960s was due in part to a perceived need to find replacements for the dwindling Soviet export and import market.

Japan's experience also shows the limits to which China will go in trying to influence the governmental policy and even domestic politics of another state. These efforts include the imposition of a series of political principles and conditions of trade (which among other things bar from dealing with China

companies who trade with Taiwan or are associated with American imperialism), the inclusion in joint trade communiques and even in contract preambles of denunciations of Japanese governmental policy towards China, and the restricting of trade only to certified "friendly firms." Despite such extraordinary actions, however, China has refrained from pushing these efforts too far. Thus, Chinese acceptance of "dummy" friendly firms enabled the major Japanese companies to circumvent the political principles and conditions. Even now, after the establishment of diplomatic relations between China and Japan, trade and tourism between Japan and Taiwan continue to grow, although governmental agencies have been converted to "private" bodies and perhaps some new Taiwan trade "dummies" have been set up.²⁶

Compare the Chinese treatment of Japan and of West Germany.²⁷ Both countries are great industrial powers and major trading partners of China; and both were World War II enemies and are now important allies of the United States. Yet in contrast to the harassments and interferences detailed in the chapter on trade with Japan, Arthur Stahnke's chapter describes a straightforward series of dealings with West Germany, with the possible exception of the arrest of some German businessmen during the Cultural Revolution. There is neither a requirement that German businessmen denounce the policies of their government, nor an imposition of political principles of trade. Indeed, when public pressure by the Johnson administration in 1964 caused Chancellor Erhard to terminate discussions with China concerning the signing of some kind of commercial "treaty," no complaint was heard from the Chinese side. Even more striking, the 1964 "Yoshida letter" which announced the policy of no credit from the Japanese Export-Import Bank brought on a torrent of Chinese protests; yet the cancellation (again under American pressure) of the Demag deal in 1966, which also involved the extension of long-term German credit, produced no outcry.

It is not entirely clear to me why China tried so hard to influence Japan's political stand, but essentially left West Germany alone. Perhaps China believes that it has less stake in what West Germany does since the latter is basically a European regional power. Perhaps out of a sense of cultural affinity or a memory of Japanese occupation during World War II, China thinks that it is able to sway Japanese public opinion in a way that would not work on the Germans. Whatever the reasons, one question that arises is where does the United States stand in this Japan-to-West Germany continuum involving the degree to which political considerations figure into China's

²⁶ See, e.g., Tillman Durdin, "Japan-Taiwan Tie Is Still Strong," *New York Times*, 1 June 1973, p. 5.

²⁷ In addition to the chapter by Arthur Stahnke in this volume, see particularly Arthur Stahnke, "The Political Context of Sino-West German Trade," in Stahnke, ed., *China's Trade*, p. 135.

economic dealings? The United States clearly is an Asian power, although possibly not to the same extent as Japan will be in the near future. American public opinion is difficult to influence, but probably not as difficult as German.

The chapter by Stanley Lubman on trade with the United States discusses the manner in which trade relations have developed, paying particular attention to the lessons that the United States should learn from the experiences of other countries. Most of the major American trade restrictions have now been removed, although there still are a number of matters such as the limitations on credit imposed by the Johnson Debt Default Act of 1934 and by some of the rules of the Export-Import Bank concerning dealings with communist countries.²⁸ In the near future there should be a settlement of most of each country's outstanding claims against the other (claims for nationalized American property and for frozen Chinese bank accounts), further clarification of the sovereign immunity rules applicable to Chinese foreign trade corporations, and a resolution of the Chinese demand for most-favored-nation treatment. Some other problems are more difficult. For example, the Chinese appear to prefer dealing with an American counterpart to the China Council for Promotion of International Trade (CCPIT) which will "coordinate" the American side of the trade. But how compatible is an organization such as the recently formed National Council for United States-China Trade with the general structure of American business or with the relationship between the business community and the government? Along a different line, up until now Chinese domestic politics (and consequently also international relations) has gone through almost alternating periods of moderation and radicalism.²⁹ There is little reason to believe that this pattern will not continue. What will happen to foreign trade and other international dealings as the present moderation gives way to new radical policies?

III. A SURVEY OF CHINESE FOREIGN TRADE, 1949-1970³⁰

Many of the "problems" of China trade appear less troublesome when viewed in light of the fact that China has had substantial and largely satisfactory trade relations with many countries for many years. This perspective

²⁸ For American trade restrictions, see John R. Garson, "The American Trade Embargo Against China," in Eckstein, ed., *China Trade Prospects*, p. 3; Thomas W. Hoya, "The Changing U.S. Regulation of East-West Trade," *Colum. J. Transnat'l L.* 12 (1973): 1; Denny and Stein, "Recent Developments."

²⁹ See, e.g., G. William Skinner and Edwin A. Winckler, "A Compliance Succession in Rural Communist China," in Amitai Etzioni, ed., *A Sociological Reader on Complex Organizations* (2nd ed., New York: Holt, Rinehart and Winston, 1969), pp. 410-38.

³⁰ Much of the research for this section was done by Celia Suk-chun Tang. The trade figures cited are taken from Eckstein, ed., *China Trade Prospects*; Eckstein, *Communist China's Economic Growth*; Mah, *Foreign Trade*; "China's Foreign Trade in 1968,"

is especially important for latecomers such as the United States. For example, we may not know exactly how an American seller can protect his patent rights and other industrial property, but surely such protection is available since European and Japanese producers have made many sales of complex technical goods to China. Similarly, other traders have found ways to cope with the Chinese trade bureaucracy and to conclude transactions without ever dealing directly with the ultimate Chinese user or producer.

China presently carries on a trade of approximately \$14 billion a year with about a hundred countries. In general China sells agriculture-related and light manufactured products, and purchases metals, chemicals, and machinery and equipment. From 1954 until 1973 exports have exceeded imports by a moderate amount, although there has been considerable variation over time and for different parts of the world. In recent years until 1973, China has conducted a roughly balanced trade with Eastern Europe, but she has maintained a substantial trade deficit with Western Europe, Canada, Australia, and Japan, and a corresponding surplus with other Asian countries and with Africa. This section will briefly survey China's trade relations with a number of countries not discussed elsewhere in this volume and will focus on the period 1949-70.

In the early years after Liberation, due to the policy of "leaning to one side" and to the United Nations embargo, the bulk of China's foreign trade was conducted with the Soviet Union and Eastern Europe. As described in several other chapters, trade with nonbloc countries began to increase after the 1952 Moscow Conference, and especially in the mid-1950s as the embargo restrictions were relaxed and as China adopted much more moderate "spirit of Bandung" foreign policies.

The early trade pattern was entirely reversed with the development of the Sino-Soviet dispute. In recent years China's trade with the Soviet Union and Eastern Europe has amounted to only about one-fifth of China's total trade. As might be expected, decline of Sino-Soviet trade has been the most precipitous, dropping from 48 percent of China's total trade in 1959 to a scant 3 percent in 1967. Other Eastern European countries (which export a quantity of trucks, ships, and machinery to China) have been similarly affected, although to a lesser degree. For example, trade with East Germany and with Czechoslovakia totaled over \$400 million in the late 1950s, but dropped to one-fourth that figure by the late 1960s.

As also might be expected, Sino-Albanian trade has blossomed during the past decade, growing from \$9 million in 1960 to nearly \$80 million in 1967. More than half of Albania's exports went to China. These sums (further

Current Scene, 7, no. 13 (1 July 1969); "China's Foreign Trade in 1969," *Current Scene*, 8, no. 16 (7 October 1970); "China's Foreign Trade in 1970," *Current Scene*, 9, no. 8 (7 August 1971). See also, Sidney Klein, *Politics versus Economics, the Foreign Trade and Policies of China* (Hong Kong: International Studies Group, 1968).

supplemented by Chinese foreign aid grants) are particularly impressive given Albania's small population of one and a half million—a figure possibly exceeded by the number of Chinese lining the airport-to-Peking route to welcome a visit of President Hoxha.

Other chapters in this volume deal in some detail with the Western European experience in trading with China, ranging from the case of Denmark (a small nation and one of the first nonbloc countries to establish diplomatic and trade relations with China), to Italy (the first NATO country to sign a formal trade agreement), to West Germany (China's largest European trading partner). Total trade with Western Europe has grown from a roughly balanced trade of \$109 million in 1952, to \$644 million (with Chinese purchases exceeding sales by \$183 million) in 1959 during the height of the Great Leap Forward, to \$881 million (with a Chinese deficit of \$143 million) in 1968. In general Western Europe (and Japan) replaced Eastern Europe as the supplier of technical goods needed for Chinese industrial development in the 1960s.³¹ At the same time purchasing from many countries has reduced China's dependence on any single source for technical inputs and spare parts. Such a dependence had existed in the 1950s vis-à-vis the Soviet Union, with unhappy results for China when the Soviet technicians left in 1960.

The experience of the United Kingdom is similar to those of the Western European countries discussed in other chapters. In addition to the usual technical products, the British have also sold a quantity of aircraft to China, including some recent sales of Tridents. Total trade in 1968 was \$152 million, with a small balance in the United Kingdom's favor.

France presents a somewhat different picture. Although the establishment of diplomatic relations in 1964 was a major breakthrough for China, this did not result in significantly increased Sino-French trade. (The chapter by Donald Klein shows that the French experience in this regard was not unique.) That is, while trade has increased more than 50 percent since 1964, the rate of increase for trade with West Germany and Italy, two countries which did not recognize China in the 1960s, was even greater. One special characteristic of Sino-French trade is the Chinese purchase of wheat. In 1963–64, wheat sales represented about two-thirds of French exports to China. Indeed, the hope for a considerably expanded and relatively permanent wheat market may have been an important incentive to the French for normalizing relations. This hope has not materialized; after a drop in the mid-1960s recent French wheat sales have totaled about \$20 million a year, a figure that is below the 1963–64 volume.

Wheat sales, however, have played a decisive role in China's relations with several other countries. Canada had been selling small quantities of wheat to

³¹ S. Klein, *Politics versus Economics*, p. 62.

China since the early 1950s.³² These sales jumped tremendously in 1961 when, in response to several years of bad harvests, China purchased over \$100 million of Canadian wheat, or about 20 percent of Canadian wheat exports for the year. Sales have generally remained at that level in subsequent years, with \$156 million sold in 1970. In 1973 China signed three-year contracts for substantial amounts with Canada and Australia.

These sales came at a particularly fortunate time for Canadian farmers. Rising costs and declining sales since the 1950s had produced a severe recession in the agricultural sector. The economic benefits resulting from the wheat sales helped foster a favorable attitude towards China in the conservative prairie states, and thus assured broadly based political support for the establishment of diplomatic relations with China in 1970.

The Australian experience, however, shows that the sale of wheat can be a two-edged sword.³³ Until diplomatic relations were established after the Labour Party victory in the 1972 elections, Australia had followed the hard American line on political and military policy towards China, but at the same time had actively promoted economic relations. The latter effort was quite successful; in the 1960s China was Australia's fifth largest export market. In the area of wheat China purchased over one-third of Australian exports; sales for 1970 totaled \$112 million.

One can imagine the consternation of the wheat producers when China failed to respond to overtures of the Australian Wheat Board to begin the 1971 negotiations. The consternation was doubly felt since during previous years many farmers had converted their land to wheat production, and since Chinese purchases of Canadian wheat increased by some \$60 million in 1971. It is not exactly clear why China suddenly stopped buying Australian wheat. Some of the likely contributing factors were economic. For example, a record Chinese harvest in 1970 reduced the domestic need for grain imports; and falling world rice prices made the wheat-for-rice substitution less attractive. China may also have preferred, for reasons of nutrition or taste, Canadian hard wheat to Australian soft wheat.

At the same time political considerations were also very much involved, although China's poor harvest in 1972 was undoubtedly a major factor. The years 1970 and 1971 were a time when many countries were changing their China policies. Canada had just recognized China, and a large number of other nations were beginning to follow suit. The United States was also negotiating the Nixon visit. Perhaps the stopping of wheat purchases was a means of urging Australia to reconsider its political policies. In this regard it is interesting to note that in 1971 Chinese purchases of Australian metals

³² See particularly Albinski and Raabe, "Canada's Chinese Trade"; Ho and Huene-mann, "Canada's Trade with China."

³³ Albinski, *Australian Policies*.

and ores reached a record high. Thus, China was not completely boycotting Australian goods, but rather was hitting a single highly vulnerable and politically influential portion of Australian society.

To pay for goods from Western Europe, Japan, the "wheat countries," and now the United States, China maintains a substantial trade surplus with other parts of the world. By far the largest foreign exchange earnings come from dealings with Hong Kong.³⁴ In the early years after Liberation, Hong Kong was especially valuable as an entrepôt for indirect trade with third countries, and in providing various commercial services and facilities. The importance of these functions declined as China established direct trade relationships with more countries. Instead, Hong Kong has developed into a major world center for light industry, with its own needs for supplies and consumer goods. In 1970 China exported about \$470 million of goods to Hong Kong, about half of which was food and a fourth was items for reexport. Hong Kong sales to China totaled only \$5 million; the result was an enormous Chinese surplus. In addition, China derives income from the business activities described in the chapter by Alan Smith, and also receives through Hong Kong perhaps \$100 million a year in remittances from overseas Chinese to their relatives in China.

In part because of the foreign exchange earnings, China has followed a very moderate line regarding the political status and future of Hong Kong. Despite the fact that Hong Kong is a foreign colony actually situated on the China mainland (and periodically being reminded by the Russians about this), the Chinese position has consistently been that Hong Kong is "a problem left over from history" which will be taken care of at some point; until then, the status quo is maintained.³⁵ The only time this policy was shaken was during the 1967 riots, but even this episode was limited in duration and scope.

China also earns foreign exchange in Southeast and South Asia. For example, trade with Singapore resembles trade with Hong Kong on a smaller scale, and in recent years has yielded an annual surplus of about \$150 million for China.

³⁴ In addition to the chapter by Alan H. Smith in this volume, see particularly Colina MacDougall Lupton, "Hong Kong's Role in Sino-Western Trade," in Stahnke, ed., *China's Trade*, p. 175.

³⁵ For example, in response to Khrushchev's references to the colony of Hong Kong in his speech of 12 December 1962 before the Supreme Soviet, the Chinese said: "[With respect to unequal treaties creating colonies] our government declared that it would examine the treaties concluded by previous governments with foreign governments, treaties that has been left by history, and would recognize, abrogate, revise or renegotiate them according to their respective contents. . . . [T]hey should be settled peacefully through negotiations and that, pending a settlement, the *status quo* should be maintained." "A Comment on the Statement of the Communist Party of the U.S.A.," *Peking Review*, no. 10/11 (1963). See also *New York Times*, 11 March 1972, pp. 1, 4 for a more recent Chinese statement at the United Nations on the same subject.

Dealing with this part of the world, however, has not been a simple matter for China. Obviously, the Vietnam War and the earlier Indochina War have been the great problems. In addition, there have been several staunchly anticommunist countries in this area, as well as organizations such as SEATO. There also have been a number of coups and changes in government, often with attendant changes in policy towards China. The border clashes with India, the formation of strong ties with Pakistan, and the establishment of the new nation of Bangladesh have created still more problems. Finally, people's liberation movements are active in several Asian countries. China is sometimes faced with the uncomfortable choice between refusing to support a "liberation" movement or else supporting a movement that attacks a government friendly to China.³⁶

A less apparent but in some ways more interesting issue is the presence of about twenty million "overseas Chinese" in Southeast Asia, including about three-fourths of the population of Singapore and half of the people of Malaysia. These persons are in a most ambiguous and even contradictory position. Many have lived for generations in their host country, but have maintained Chinese customs and language and have not been assimilated into the local population. Traditional Chinese concepts of *jus sanguinis* have bestowed on these people the often dubious benefits of dual nationality. In response to some of the problems mentioned below, the PRC has been moving away from the use of *jus sanguinis* as a determination of nationality; in addition, no obligations are imposed on overseas Chinese and these persons are urged to obey the laws of their host country.³⁷ Still, the Chinese government on occasion has felt obliged to extend a kind of "diplomatic protection" by protesting discriminatory or oppressive actions taken by another country against overseas Chinese living there. (A further contradiction is that the objects of the discrimination are sometimes rich Chinese landlords and merchants.) Along a related line there is considerable competition between Peking and Taipei to win the support of the overseas Chinese. Propaganda and other efforts on the part of both sides have raised apprehensions about the extent to which Peking and Taipei may be interfering in the internal affairs of another country. Some anticommunist governments in the area also feared that the PRC might use the local overseas Chinese community as a point of infiltration.

Many of the factors discussed above can be clearly seen in Sino-Indonesian relations.³⁸ Diplomatic relations were established in 1950, but early Chinese

³⁶ Peter Van Ness, *Revolution and Chinese Foreign Policy* (Berkeley, Calif.: University of California Press, 1971).

³⁷ James C. Hsiung, *Law and Policy in China's Foreign Relations* (New York: Columbia University Press, 1972), pp. 131-51.

³⁸ Arnold C. Brackamn, *The Communist Collapse in Indonesia* (New York: W. W. North, 1969); see also Daniel Tretiak, "Changes in Chinese Attention to South-East Asia, 1967-1969: Their Relevance for the Future of the Area," *Current Scene*, 7, no. 21 (1 November 1969).

attempts to purchase rubber were rejected by Indonesia as violating the United Nations embargo. Two years later a new Indonesian government formed by an alliance of the Nationalist Party and the Communist Party (PKI) defied the embargo and entered into two trade agreements which called for the exchange of Indonesian rubber and forest products for Chinese textiles and machinery.

The 1955 Bandung Conference further improved relations. In addition to a third trade agreement, China began to provide credits to Indonesia: \$16 million in 1955, \$11 million in 1958, \$30 million in 1961, and \$50 million in 1965 (the last was not completely implemented). These were not large sums when compared to the Soviet Union's aid and credits of \$368 million, but they still represented substantial commitments, given China's own limited economic capacity and great needs. The Bandung Conference also produced agreement on a dual nationality treaty, whereby Chinese living in Indonesia had two years in which to elect one nationality or the other. Ratification of this treaty was delayed for five years, however, by right-wing Islamic parties who did not want to grant Indonesian citizenship to the local Chinese.

Further problems arose in 1959 when President Sukarno passed a law that prohibited aliens, in effect the local Chinese, from carrying on commerce in the rural areas. The following year the Basic Agrarian Law limited private ownership of land to Indonesian citizens. During these two years trade between China and Indonesia dropped sharply. In December 1960 the dual nationality treaty was finally ratified, and relations began to normalize. Trade increased steadily, reaching a volume of over \$100 million in 1964.

All this ended abruptly with the attempted coup by the PKI in September 1965. The PRC and the local Chinese community were accused of involvement in the coup. Numerous violent attacks were launched against local Chinese and also against the PRC embassy. After a series of heated exchanges trade was stopped, Chinese technical experts went home, and finally diplomatic relations were severed. Several thousand Indonesian Chinese left their country of birth to settle in China. In 1968 the dual nationality treaty was unilaterally revoked by Indonesia. There has been virtually no direct trade between the two countries since 1965, although a certain amount of indirect trade is carried on through Hong Kong and Singapore. In the early 1970s, however, Indonesian officials indicated an interest in the resumption of trade.

To balance the picture, the sharp turns in Sino-Indonesian relations should be contrasted with the almost unique steadiness of relations between China and Sri Lanka. Political changes within the island have not affected trade. The exchange of rubber for rice is based on five-year trade agreements (signed in 1953, 1957, 1962, and 1967) with annual protocols. Except for 1961-62 when China's bad harvests limited her export capacity, the volume of trade has been relatively steady at \$50-70 million a year since 1956.

Chinese trade with Middle Eastern countries has been limited, totaling

\$163 million in 1968 (with a surplus in China's favor of \$73 million). This is due in part to China's self-sufficiency in oil and in part to the great Soviet influence in this part of the world. Generally, China buys cotton and sells foodstuffs and manufactured products. The recognition of China by Iran, Turkey, and Kuwait in 1971 should produce an increase in trade.

Trade with Africa also has been on a small scale, amounting to \$125 million in 1968 (with a surplus in China's favor of \$65 million). These figures, however, do not adequately reflect Chinese activity or interest in this continent. As a leader of the Third World, China has provided credits, equipment, and technical personnel to assist in the economic development of a number of African countries. These efforts have not always produced the desired results. Complaints about political interference and subversion led to a temporary severing of diplomatic relations with Ghana, Burundi, Dahomey, Tunisia, and the Central African Republic in the mid-1960s. (See the chapter by Donald Klein for further details.)

By far the most ambitious Chinese economic action in Africa has been the support provided for the construction of the Tanzam Railway after organizations such as the World Bank had refused to do so.³⁹ Obviously, few projects of this magnitude—\$400 million—can be undertaken. Nevertheless, the Tanzam Railway is a dramatic demonstration to the Third World of Chinese capabilities and interest.

Even here, however, some serious problems are present. The three countries have agreed that 60 percent of the construction costs is to be paid out of profits derived from Chinese exports to Tanzania and Zambia. The question is how will these two countries be able to import \$120 million of Chinese goods a year as provided for in the agreement? This may be too large a volume for the Tanzanian and Zambian economies to absorb. More specifically, a 1970 Zambian trade mission to China reported that the principal Chinese goods suitable for import to Zambia were chinaware, glassware, carpets, bicycles, and a small quantity of textiles (so as to avoid adverse competition with the new local textile industry); if this assessment is correct, one wonders how the total of \$120 million could be reached.

Until recently American influence and the existence of a number of right-wing dictatorships have kept China's trade with Central and South America to a mere trickle.⁴⁰ The only two exceptions have been Chinese purchase of a substantial amount of Argentinian wheat in 1962–66, and trade with Cuba since 1960; otherwise, the total volume of trade with this area was only about

³⁹ George T. Yu, "Working on the Railroad: China and the Tanzania-Zambia Railway," *Asian Survey*, 9, no. 11 (November 1971); George T. Yu, *China and Tanzania: A Study in Cooperative Interaction* (Berkeley: Center for Chinese Studies, University of California, 1970).

⁴⁰ George Ginsburgs and Arthur Stahnke, "Communist China's Trade Relations with Latin America," *Asian Survey*, 10, no. 3 (July–December 1970).

\$10 million a year in the 1960s. Recent improvement of relations with Chile, Mexico, Peru, and other countries indicate, however, that future economic dealings with this part of the world will increase rapidly.

More generally, in the past several years China has emerged as a principal spokesman and champion for the Third World. She has played this role in the United Nations and in international conferences concerning the law of the sea, population, and food. This trend is likely to continue for some time. With the growth of political ties with the Third World, trade should correspondingly increase.

Trade with Japan

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I. INTRODUCTION

The Nixon visit to Peking in February 1972 stimulated Japan's efforts to increase trade with the PRC by creating potential American competition in the China markets and by relaxing the general political atmosphere for dealing with the PRC. In July 1972 the new prime minister Tanaka Kakuei had replaced the anti-PRC Sato Eisaku. Tanaka visited Peking two months later; at that time he established diplomatic relations with the PRC, recognized that rights to Taiwan under the Potsdam and Cairo Declarations accrued to the PRC, and implicitly abrogated the peace treaty of 1952 with the Republic of China.¹ Diplomats and embassies were exchanged in January 1973. During the fall of 1972 diplomatic relations between Japan and Taiwan were severed, although recently both Japanese and Taiwan spokesmen have been hinting at the possibility of maintaining some kind of relations under the principle of "separation of politics and economics"—this time applied to Tokyo-Taipei dealings.

Since late 1971 the Japanese business community has been responding to the new climate by sending delegation after delegation to Peking. Included in these pilgrimages are many major companies that had theretofore traded with the PRC only through dummy subsidiaries. This peculiar arrangement was

NOTE: This paper attempts to present the Sino-Japanese trade experience up to the end of 1973.

¹ A convenient Japanese text of the joint communique may be found in *Tōzai bōeki report* (East-West trade report) (Tokyo: Ajia Bōeki Tsūshinsha, Autumn, 1972), 10: A-2.