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tively little competition in international export markets, may induce investment at home with high multiplier effects. One may speculate why the export tariff is rarely used by the developed nations. Perhaps this may be explained by the relatively greater competition in manufactured products vis-à-vis raw materials such as diamonds and copper. In the case of raw materials, it is more difficult for new producers to enter the market place unless the entering countries are

by chance endowed with the same chance factors – presence of minerals, in the case of diamonds or copper, or the right climatic and natural circumstances, in the case of agricultural goods. On the other hand, modern technology is highly exportable. It is much more difficult for a country to corner a technique. These differences in the composition of trade between developed and less developed nations explain the relative confinement of the export tariff to the developing nations.

Trade Relations Between the US and China

by Bernd Kunze, Hamburg

President Nixon's intention to visit Peking is attracting tremendous interest all over the world. The present article discusses past developments of US/Chinese trade and its possibilities in the future.

Washington's foreign trade policy is primarily determined by two fundamental Acts of Congress: the Export Control Act of 1949 and the Mutual Defense Assistance Control Act (known as "Battle Act") of 1951. The former, being administered by the Department of Commerce, prohibits exports of so-called strategic goods, as defined by the United States and its allies. The latter, for whose application the State Department is responsible, authorises and instructs this Department to institute measures against such foreign nation or alliances of nations which trade with other states that threaten the US or its own allies.

The Embargo Policy of the US

Principally in response to the demand of the United States, the mounting tensions between East and West have led to the creation of a multi-lateral system of trade controls, in 1949, at a conference in Paris, directed against the "Sino-Soviet Bloc". A Consultative Group, consisting of two separate committees, was set up, of which the first one came into life in 1950 and was known as the Coordinating Committee, COCOM, to deal with trade with the countries of the Soviet Bloc in Europe. The second one was the child of worldwide reorientation induced by the Korean War. It saw the light of day in 1951 and was called the China Committee, or CHINCOM, designed to control trade with Asian communist countries. With the sole exception of Iceland, all the member governments of NATO and that of Japan are represented on these two committees¹.

¹ See Far Eastern Economic Review (Hong Kong), No. 2, July 13, 1967; also: East-West Trade. Hearings before the Committee on Foreign Relations United States Senate. Eighty-Eighth Congress, Second Session, Part I, Washington, D.C., 1964, p. 216.

In order to prevent shipment of strategic goods, four embargo lists were drawn up containing the description of goods whose exports are either totally prohibited or subject to special permission. List No. 4 is the "China List" which names all the goods that must not be shipped to either Red China or North Korea.

It took till 1957 before the special China List was abandoned, and the two former COCOM and CHINCOM committees were merged. At the same time, all exports to Far Eastern Communist states were transferred to List No. 3, which contains names and descriptions of goods whose shipments are being restricted through controls imposing a modified embargo. In 1958, export controls were further reduced through adopting only two lists, known as the Embargo List and a further list naming controlled exports.

This meant that both the states of Western Europe and Japan were able to resume "normal" trade relations with the People's Republics of China and North Korea, which were only subject to the rules and regulations of the supra-national agreement. But the United States, during all this time and later, did not participate in this general loosening of restrictions, keeping in being their strict trade embargo against China. The formal reasoning behind this abstention from trade with China was that the Korean War had not been terminated by a true peace treaty but merely by a general truce.

A Period of Reorientation

For a couple of years, Washington refused all talks with Red China till, at last, in 1955, US representatives started to deal with those of China in

Geneva. Then the Formosa crisis intervened, and nothing further was done for another two years. Talks were resumed during September, 1958, in Warsaw. In 1960, the schism between the Soviets and China broke out. In 1961, President Kennedy attempted to use the differences between the Soviet Union and China for mollifying the intense hostility between the US and the People's Republic of China. No immediate success was granted this endeavour, but it was of major importance for a future policy towards China that the "old China hands" were removed from key positions for determining US attitudes.

But again, from 1964 onwards, the mutual attitudes of the US and China came progressively under the shadow of their growing engagement in Vietnam. As the fight there escalated, from 1964 to 1967 there was always a risk of war breaking out between the two big powers. One major effect of this was that the Great Debate on Vietnam, whose focus were the hearings of the US Senate's Foreign Policy Committee, expanded into a general Debate on China.

For the March, 1966, hearings of the Senate's Foreign Policy Committee, the guiding idea was that of "containment without isolation". One of the witnesses heard, Professor Fairbank, specifically recommended to work for China's eventual integration, by making it take part in international conferences, cooperate in international organisations, and by drawing the country into international trade with all other nations. However, in order to prevent potential Chinese attempts to expand, all American measures would have to be accompanied by a firm military and defence posture. Professor Barnett went even further and suggested recognising Peking's jurisdiction over all continental China *de facto*, reducing existing foreign trade legislation to an embargo for strategic goods only, and striving for both the People's Republic of China and the National Republic of China (Taiwan) becoming voting members of UNO.

On March 16, 1966, Dean Rusk, the then Secretary of State, put on record for the first time officially the new China policy of the Federal Administration. This was set out in a programme of ten points, culminating in the proclamation that the Government wanted to "contain China without isolating her".²

The Failure of the Embargo Policy

The total embargo which the United States had imposed on trade with China in 1950 was not dismantled in all the following years, and it came

² See "Report of the US Secretary of State, Dean Rusk, to the House Sub-Committee on Far Eastern Questions", March 16, 1966 (An Extract about the China Policy of the US). Source: Wireless Bulletin from Washington (The United States Ambassador in Bonn), No. 73, April 20, 1966, as reprinted by "Europa-Archiv", Frankfurt-on-Main, No. 17, Sept. 10, 1966, pp. D 457 et seq.

progressively under more and more severe criticism³.

The main argument against this policy was that the embargo of the US had been shown to be ineffective and was losing its impact gradually, in time, since such an attempt to isolate another power made sense only if and when this power was on the brink of total breakdown. There had been a point, during the early 'sixties, when the People's Republic of China was nearing such a calamity, because the Soviets had then begun to reduce deliveries of supplies under the impact of the quarrel between Moscow and Peking and, at the same time, China was suffering from the effects of several bad harvests, but the United States' allies jumped into the breach and aided Red China. Naturally, there was also widespread discontent about American businessmen being prevented from having a share in potential business deals with China, from which America's allies were profiting. It was stated that the creation of a united front of all western countries *vis-à-vis* Red China had proved not to be feasible, and this again would lead to cracks and weaknesses in the western system of alliances. Moreover, continuing the embargo would spread a false picture of real conditions among the US public.

From the end of November, 1967, Washington made it clear that it had developed a more flexible policy towards Red China⁴, but only in the third quarter of 1968, Red China began to turn its interest again to foreign policy, as a completely new beginning, after the disorders of the Cultural Revolution had passed⁵. The main change was that ideas about potential "peaceful coexistence" with the US were put on record. However, the reaction to this innovation was much stronger in Moscow than in Washington.

It was not before February, 1969, that Will Rogers, the new Secretary of State, suggested, *inter alia*, mutual exchanges of journalists and scientists. In July of the same year, Washington for the first time unilaterally withdrew certain restrictions on travelling to, and trading with, China. US citizens got general permission to import into the United States goods to a maximum value of \$ 100, and certain groups of US citizens were granted conditional permission to visit Red China⁶.

But only in October, 1969, it was reported that the Americans were willing and prepared to resume Chinese-American talks on the ambassa-

³ See here and passim "Communist China's Economic Growth and Foreign Trade, Implications for US Policy", by Alexander Eckstein. New York, 1966, pp. 243 et seq.

⁴ For details see International Herald Tribune, Paris, No. 26 400, Nov. 11, 1967.

⁵ See Le Monde, Paris, No. 7 428, Nov. 30, 1968.

⁶ See International Herald Tribune, Paris, No. 26 915, July 29, 1969.

dorial level. The response of Peking, however, was a stiffening of the Communists' attitude, probably because the problem of Taiwan was still as far from a solution as ever, and because of the continuing struggle in Indochina.

Policy Revision

Conspicuous inroads into US trade restrictions became known in December, 1969: notably, foreign associate companies of US concerns were granted permission to trade with the People's Republic of China. Such firms may both sell goods to Red China, provided they are not specifically embargoed, and buy and resell Chinese products, but not in the United States themselves. And tourists from the US may now buy products from Red China to a total value of more than \$ 100 and to bring them back to the US. Finally, museums, universities, and art collectors in the US may, for their own use and possession, import unlimited quantities of Chinese works of art.

But the new measures did not set up any volume of trade in whose path policy might follow: the Chinese did not develop a demand for goods from the US, because other western countries offered to supply identical products. There is another reason why the limited "liberalisation" of trade with China by the US will be deprived of success: two thirds of the total of volume of all Chinese trade with the West are bought and sold during the two annual trade fairs in Canton, but US businessmen are not allowed to attend them.

Not surprisingly, there was no response from Peking to the US opening the door for the China trade to a limited extent. Only certain quarters in Hong Kong's industries showed some discomfiture because they feared US companies be-

coming potential competitors in the field of trade with third-party countries⁷.

On January 20, 1970, the Ambassadors of the US and of Red China resumed their talks – and the May, 1970, declaration of Mao Tse-tung⁸ about the Cambodian offensive of the Americans marked only a brief interruption in them. Then the US State Department, in late August, 1970, began to issue new liberalisation decrees. They concern the purchase of fuel by ships trading under non-communist flags carrying cargoes to Red China.

"Resuming Old Friendship"

Following hints in his Report on the World Situation, which President Nixon sent to Congress in late February, 1971 that he might consider revising US relations with Red China, he published a Five Point Programme on April 14⁹, whose broad contents were:

- Individuals or groups from China may freely apply for visitors' visa for this purpose, and they will be made available to them more expeditiously than in the past;
- Currency restrictions applying to relations with the People's Republic of China will be liberalised, and not every dollar transaction for this purpose will henceforth be subject to special permission by the US Treasury;
- The mineral oil supply will be further liberalised: both ships and aircraft bound for China may use US owned fuelling facilities, except Chinese-owned or Chinese-chartered ships bound for Cuba, North Korea, and North Vietnam;

⁷ See Internationale Wirtschaft, Vienna, No. 4, Jan. 23, 1970.
⁸ See Bulletin d'Information de l'Ambassade de la République Populaire de Chine, Berne, No. 292, May 20, 1970.
⁹ See The Financial Times, London, No. 25 428, April 15, 1971.

Table 1
People's Republic of China: Foreign Trade Trends
 (US\$ million)

Year	Foreign Trade Turnover			Foreign Trade with communist countries				Foreign Trade with non-communist countries			
	Exports	Imports	Total	Exports	Imports	Total	p.c. of Total	Exports	Imports	Total	p.c. of Total
1950	620	590	1,210	210	140	350	28.9	410	450	860	71.1
1953	1,040	1,260	2,300	670	890	1,560	67.8	370	370	740	32.2
1957	1,600	1,430	3,030	1,070	870	1,940	64.0	530	560	1,090	36.0
1959	2,210	2,060	4,270	1,600	1,370	2,970	95.6	620	700	1,320	4.4
1963	1,560	1,200	2,760	820	430	1,250	45.3	740	770	1,510	54.7
1965	1,960	1,740	3,700	650	490	1,130	30.5	1,310	1,260	2,570	69.5
1966	2,150	1,800	3,950	400	400	800	20.3	1,750	1,400	3,150	79.7
1967	1,970	1,710	3,680	280	280	560	15.2	1,680	1,420	3,100	84.8
1968	1,910	1,600	3,510	280	300	580	16.5	1,630	1,300	2,930	83.5
1969	2,000	1,900	3,900	400	400	800	20.5	1,600	1,500	3,100	79.5
1970	2,200	1,800	4,000	300	200	500	12.5	1,900	1,600	3,500	87.5

Source: Max Biehl, Der große Sprung nach vorn (The Great Leap Forward), in WIRTSCHAFTSDIENST, Vol. 51, 1971, No. 5, p. 272, and author's own estimates.

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GERMAN PRISM

Relocated or Newly Estab- lished Indus- trial Plants

plants employing together 90,000 workers and employees were relocated or newly established in 1968 and 1969. Furthermore the study shows that the Land North-Rhein-Westphalia again registered most of the new establishments, followed at a considerable distance by Bavaria and Württemberg. The leading sector were the iron and metal processing industries and the clothing industry. On the other hand, during the same period about 1,000 industrial enterprises with about 74,000 workers and employees were closed down.

1970: Increase in the GDR's West Trade

8.8 p.c.) and that of the FRG to 10.2 (10.0) p.c. Thus the FRG was the GDR's most important trade partner, second only to the USSR. The share of COMECON was 67.3 (68.6) p.c. and the USSR's share dropped below 40.0 p.c. According to GDR-statistics its foreign trade (including trade with the FRG) reached a volume of Valutamark (VM) 39.6 (34.8) bn (1 US-\$:VM 4.20). Trade between the two parts of Germany had a volume of VM 4.05 (3.5) bn and the FRG registered an active balance of VM 0.3 (0.4) bn. For 1971 the GDR's economic plan aims at a growth rate of foreign trade of 8 p.c. vis-à-vis 1970.

Housing: Higher Invest- ment, Smaller Volume

finished apartments with 477,900 units dropped by 21,800 units below the previous year's level. This trend is only little influenced by the fact that the sum total includes also expenditure for

According to a study on industrial locations, made by the Federal Ministry for Labour and Social Order, in the Federal Republic and West Berlin more than 1,500 industrial

plants employing together 90,000 workers and employees were relocated or newly established in 1968 and 1969. Furthermore the study shows that the Land North-Rhein-Westphalia again registered most of the new establishments, followed at a considerable distance by Bavaria and Württemberg. The leading sector were the iron and metal processing industries and the clothing industry. On the other hand, during the same period about 1,000 industrial enterprises with about 74,000 workers and employees were closed down.

The share of OECD (excluding the Federal Republic of Germany: FRG) in the trade volume of the German Democratic Republic (GDR) climbed to 10.5 p.c. in 1970 (1969:

8.8 p.c.) and that of the FRG to 10.2 (10.0) p.c. Thus the FRG was the GDR's most important trade partner, second only to the USSR. The share of COMECON was 67.3 (68.6) p.c. and the USSR's share dropped below 40.0 p.c. According to GDR-statistics its foreign trade (including trade with the FRG) reached a volume of Valutamark (VM) 39.6 (34.8) bn (1 US-\$:VM 4.20). Trade between the two parts of Germany had a volume of VM 4.05 (3.5) bn and the FRG registered an active balance of VM 0.3 (0.4) bn. For 1971 the GDR's economic plan aims at a growth rate of foreign trade of 8 p.c. vis-à-vis 1970.

In the past year the increase of investment in housing by 15.7 p.c. to a total of DM 36.3 bn was to a considerable part a consequence of rising prices. The number of

finished apartments with 477,900 units dropped by 21,800 units below the previous year's level. This trend is only little influenced by the fact that the sum total includes also expenditure for

apartments under construction at the end of the year. They numbered 622,800 units and thus surpassed the previous year's corresponding level by 96,800 units. The share of public funds in financing housing declined from 8.6 p.c. to 7.6 p.c. Among the institutional investors the building societies increased their share to 34.3 p.c. With that they provided more than half of the capital (65.6 p.c.).

Incoming Orders: Intermediate Boom a Prema- ture Conclusion

In June total incoming orders of industry were 2.0 p.c. above the level of May and 3 p.c. above the previous year's corresponding value. This includes a particularly conspicuous increase of new orders booked in the capital goods sector, i.e. of 8.1 p.c. as against May and 4.8 p.c. vis-à-vis the previous year. This development has been repeatedly interpreted as an extension of the intermediate boom in spring. But this conclusion is obviously a premature one. Domestic demand in nominal terms is slightly declining since March. Adjusted for price a distinct levelling is to be noticed. This is particularly valid also for demand for capital goods — in spite of dynamic impulses originating from vivid demand for durable consumer goods (cars and electrical appliances) that are statistically ascertained as capital goods. The stimulation of foreign business in capital goods according to VDMA (Association of German Engineering Companies) is to be traced back above all to a non-recurring extraordinarily high incoming order of the shipbuilding industry. The process of a slow cyclical decline of demand mainly in the capital goods sector is, however, continuing. This is also indicated by the reduction of orders in hand (3.1 months according to Ifo-Institute for Economic Research, Munich).

Mannesmann Obtained Higher Turnover in 1970

to outside partners to the amount of DM 5.1 bn, for 1970 this figure was DM 7.4 bn. The foundries and pipe mills contributed DM 3.2 bn and machinery and plant construction DM 1.1 bn to this

Dr Egon Overbeck, Member of the Board of Managers, stated in his address to the general meeting of Mannesmann AG the newest figures. For 1969 Mannesmann AG showed sales

total external turnover of DM 7.4 bn. Compared with this the external turnover of the chemical and plastics-processing sectors obtained an only very moderate external turnover of DM 62 mn. The sector trade and shipping business is, however, of major importance showing a total of DM 3.0 bn, of which DM 2.0 bn were obtained with products of other manufacturers.

Fortunately incoming orders recovered again from April 1971 on, after during the first months of the year the steel-pipe market had been weaker due to the sluggish business trend. Above all the sectors machinery and plant construction as well as trade and shipping business could increase their sales. The external turnover of all Mannesmann companies at home and abroad amounted to DM 3.5 bn in the first half of 1971.

Family Incomes Quadrupled since 1950

The disposable incomes of an average family in the Federal Republic (four-persons household with a medium income of the householder) has doubled every ten years since 1950.

In that year the monthly net income averaged about DM 300, rose to DM 675 until 1960 and last year amounted to DM 1,221. Of these incomes 93.0 p.c. were spent on private consumption in 1950, in 1960 this figure was 91.0 p.c. and in 1970 only 85.0 p.c. still. First 7.0 p.c., later 9.0 p.c. and now 15.0 p.c. of the average incomes could be used for saving purposes and property formation.

While in 1950 the standard household still spent 46.0 p.c. of its total expenditure on food, in 1960 and 1970 this percentage dropped to 38.0 and 30.0 p.c., respectively. The sums available for flexible consumption (e.g. car, personal hygiene, health, entertainment, education, jewellery) are of particular interest. This share in total consumption increased from 24.0 p.c. in 1950 to 38.5 p.c. in 1970.

Smaller Growth of Power Consumption in the 1st Half of 1971

Power consumption in the Federal Republic of Germany expanded by only 2.0 p.c. in the first half of 1971 as compared with the first six months of 1970. According to calculations

of BP Benzin and Petroleum AG—taking into consideration the data so far available—power consumption increased from 168.9 mn tons of hard coal units (SKE) to 172.3 mn tons of SKE.

Two factors should have been responsible for this comparatively lower growth rate: the business trend and the temperature. Due to the close connection between economic growth and power consumption the declining boom justified the anticipation of a lower growth rate of power consumption, too. Moreover, in the first half of 1970 the average temperature was below the long-term average while in the first six months of 1971 it hardly deviated from this value. Therefore in the first half of 1971 the demand for power for heating purposes was smaller.

Distinct Decline in the Iron, Sheet and Metal Industry

In the first half of 1971 the business trend in the iron, sheet and metal processing industry distinctly weakened although a pronounced differentiation could be noticed between

the individual sectors. Measured by the total volume of orders, incoming orders declined slightly in the first half of the year, so orders in hand were reduced in many enterprises. The Association of the Iron, Sheet and Metal Processing Industry (EBM) taking into consideration cost and price increases is now talking about a stagnating production in this branch, which today comprises 3,399 enterprises with approx. 392,000 workers and employees. So far prices of most EBM-products have remained stable, only in a few sectors price adjustments were the reaction on highly increased costs. In May EBM-producer prices in domestic trade surpassed the previous year's level by 6.7 p.c. At the same time export prices were a good 6.0 p.c. above last year's level.

Property Formation Differing According to Professions

Property formation of the index households continued to rise in the first quarter of 1971 as compared with the previous year's corresponding period. However, the development is different for the individual types of households. The monthly property formation of two-persons households of pensioners and recipients of social security payments according to newest data of the Federal Statistical Office have risen at the surprising rate of 78.0 p.c. to DM 56.30. Four-persons households with a medium income also obtained the comparatively high growth rate of 41.5 p.c. to DM 179.38. On the other hand, in the case of four-persons households of public officials and employees with a higher income the growth rate of property formation with 9.0 p.c. to DM 379.04 was below level.

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US registered ships may in future carry Chinese products between non-communist ports, and US owned but foreign-registered ships may ply their trade also on routes calling on Chinese mainland ports;

In addition, President Nixon foresaw the possibility to permit direct imports into the US of Chinese goods, but before this will be possible, a "positive list" of non-strategic goods must be compiled and published, to cover permissible direct exports to China.

On June 11, President Nixon published the new regulations covering imports from, and exports, to China¹⁰. Trade goods of US origin which may be freely exported to China are broken down into 47 non-strategic groups, mainly products of farming, forestry, and fishing; tobacco; fertilisers and certain chemicals; textiles; electrical appliances and equipment; certain types of electronic equipment; motor vehicles and spare parts for them. At the time, US markets have been thrown open generally to imports from China, but subject to federal controls.

The reasons for this attempt of the US to resume closer relations with China may be deemed to be mainly the following ones:

On purely pragmatic grounds, it is assumed that the two powers, after having lived in mutual isolation for 22 years, should attempt to draw nearer to each other;

to continue the policy of "keeping China in quarantine" might under present conditions in the world, lead to the US becoming isolated itself;

the export industries of the US have started to see more positive aspects in the trade with China.

The Government in Peking presumably believes that better relations with the US might ease China's entry into UNO. It may also be assumed that Chinese communists foresee that US recognition of their regime will form part and parcel of a general shifting of the balance of power in the Far East, which they welcome, especially regarding Taiwan and Japan, whose influence in South East Asia is likely to grow if the Nixon Doctrine is realised. The Chinese will likewise be interested in scotching any possibility of the US and the USSR cooperating closely. And finally, it may be expected that Red China does not want to be excluded from a general settlement if and when the war in Indo-China will be terminated.

No Guarantee of Success

It is extremely difficult to forecast future developments in US-Chinese political relations.

¹⁰ See *Frankfurter Allgemeine*, No. 133, June 12, 1971.

Equally difficult is any safe prediction as to what influence Washington's economic measures will have on the expansion of the China trade of the US, the more so as the change in the relations between China and the US is mainly of a political nature, whilst trade policies will initially play only a subordinate part.

Any look at China's foreign trade figures, however, will make it clear that the violent quarrel between the USSR and China, which broke out in the early 'sixties, has caused a shift in Chinese trade relations towards western countries (see Table 1), though the People's Republic of China, relative to its sheer geographical vastness, its enormous population, and the size of its internal trade, carries on a foreign trade of negligible proportions.

The further China's economy progresses, the stronger will be the likelihood that, similar to East European states, the Peking Government will realise that foreign trade induces economic growth, and will use this potency. Provided that political conditions remain stable, the share of non-communist states in China's foreign trade will continue to rise. This assumption seems justified, because the USSR is currently deemed to be the People's Republic of China's most dangerous opponent, and because the West will have a much larger capacity to produce and supply the goods required by Peking.

Future Prospects of US-Chinese Trend

By request of the Committee for American-Chinese Trade, Professor Dernberger has developed forecasts about trade trends up to 1980 likely to prevail in US-Chinese relations. Assuming favourable conditions, he expects annual Chinese imports from the US to the equivalent of US \$ 650 mn, and Chinese exports to the US of \$ 250 mn. Presumably, Red China will export mainly farm produce and import principally industrial equipment, machinery, and mineral raw materials. Provided commercial exchanges between the US and Red China develop as predicted, trade relations between the Chinese People's Republic and other western countries cannot fail to be affected, especially in regard to transit trade through third-party countries, which will then go the direct way¹¹.

But even the most optimistic assessment cannot hold out a prospect of large-scale US trade with Red China for the near future, nor will it be possible, in view of the possible volume of such transactions, to derive sizeable advantages for the US balance of payments from such trade.

¹¹ For details, see *The Journal of Commerce*, New York, No. 22,390, March 1, 1971; *The Wall Street Journal*, New York, No. 48, March 11, 1971.