

**SINO-SOVIET TRADE
IN THE 1980s**

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C E R T I F I C A T E

Certified that the dissertation entitled
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Mr. CHARAN SINGH VERMA in fulfilment of six credits
out of the total requirement of 24 credits for
the Degree of MASTER OF PHILOSOPHY of the University,
is his work according to the best of my knowledge
and may be placed before the examiner for
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INTRODUCTION

Trade relations between People's Republic of China and the Soviet Union provide the most significant indicator for determining the degree of mutual collaboration. Since most of the Soviet Unions' economic assistance has been directed through the channel of merchandise transactions, the variations in bilateral trade reflect the ebb and flow of cooperation.

Sino-Soviet trade can be divided into four different phases according to the ups and downs in their trade relations. The first phase from 1950 to 1960, second phase from 1960 to mid 1970s, third phase from mid 1970s to 1980-81 and the fourth phase from 1982 onwards.

The first phase was the period of high economic exchanges. The volume of goods exchanges between the USSR and China rose constantly through out this decade. This phase was crucial for giving a solid foundation of the economy of China. While in mid 1930s, China's foreign trade with the Soviet Union and the other East European countries was below 5 percent, the share

of this group had risen as early as 1950 to 38 per cent. In the 1950s, the Soviet Union participated in about half of the Chinese foreign trade. If looked at the Eastern European countries separately, the Soviet Union supplied 72 per cent of the goods of this group and received 74 per cent of all Chinese exports. In 1948, the Soviet Union held ninth place in Chinese exports, third place in 1949 and then moved to first place in 1950. The first two years of this decade were the period of rehabilitation for China's economic development. In this period the USSR delivered equipment, machines and consumer goods to China. The volume of goods exchanged increased by almost 70 per cent. China launched its first Five Year Plan in 1953 and the two way trade increased strikingly. Towards the close of this decade, the Sino-Soviet trade underwent a great fluctuation. The trade had an upward trend in 1958-59 but this was reversed in 1960. The record year for Sino-Soviet trade was 1959 when China's exports to USSR reached \$ 1100 million. In the same year, Chinese exports registered a 25 per cent increase over 1958 figures. In 1960, the total turnover of Sino-Soviet trade fell by 19 per cent. Owing to the deterioration in agricultural conditions, China's exports to the USSR declined more than her imports.

Nevertheless, China's volume of imports from the Soviet Union was higher than any other year with the exception of 1959.

As is the prevailing pattern for countries within the Soviet bloc, trade between the Soviet Union and China was conducted by the two governments according to bilateral agreements. The lists of goods to be exchanged were included in the annual protocols. Through-out this period, the constant prices and exchange rates were maintained without any substantial alternation or adjustment. A notable characteristics of Sino-Soviet trade in this period was the fact that the annual trade volume not only reflected total commercial activity but also includes economic assistance and military shipments. Another major feature of Sino-Soviet trade was the absence of any long term trade agreement.

The composition of the merchandise traded in this phase did undergo substantial change. In 1950-52, the items of greatest importance exported by the USSR to China were equipment and machines, ferrous metals and petroleum. The second important item of Soviet exports to China was ferrous metals. Third major commodity exported

was oil and oil products. Apart from capital goods, China also imported considerable quantities of cotton cloth from the USSR. China's exports were basically in the form of foodstuffs, food and non-ferrous and alloy metals. In the 1956-57, one important change that materialized was the suspension of Soviet exports to China of cotton cloth and other consumer goods. This accrued as a result of China's increased production of these items. The composition of Sino-Soviet trade followed a rather different pattern after 1958. There was considerable fluctuation in Soviet exports of machinery and equipment to China, after reaching a high level of 62 per cent of the total Soviet exports to China in 1959 and 1960 the share of these items fell to 29 per cent in 1961. The contrast of this, there was a constant increase in deliveries of petroleum and petroleum products. The nature of Chinese exports to the USSR also changed considerably. Food exports which accounted for 27.4 per cent of the 1956 total volume, declined to 28 per cent in 1958, 19.9 per cent in 1959, 15.1 per cent in 1960 and was only 3.2 per cent in 1961.

Chapter I deals with the historical background of Sino-Soviet trade. It includes the period between 1948 to 1980. The trade, in this period passed through different phases. The first phase was of trade exchanges up to 1960. Then it declined abruptly in 1961 and remained low for a decade and a half. It was only in mid 1970s, the third phase of Sino-Soviet trade, that the two-way trade started picking up moderately. In the late 1970s the trade has reached a significant level but was again marred due to political developments like the Soviet Union's Afghanistan intervention.

Chapter II deals with the Sino-Soviet trade between 1980-86-87. Although the trade has reached a significant level in 1980, the real turning point was the year 1982. With signing of new trade agreements, a new era in Sino-Soviet trade relation was begun. The trade increased manifold in these couple of years. The trade volume of both the countries increased significantly and it increased with other leading trade partners also, but the rate of increase of Sino-Soviet trade was highest when compared with the trade of either of them with their respective leading trade partners. The volume of

Sino-Soviet trade registered a steady growth with an exception of the year 1981. In the period 1980-86, China's imports from the Soviet Union increased at a rate of 33.16 per cent annually, while the exports, in the same period grew at the rate of 46.69 per cent per annum. The share of the USSR in China's imports was 1.32 per cent in 1980, 0.71 per cent in 1981, 1.29 per cent in 1982, 2.07 per cent in 1983, 2.58 per cent in 1984, 2.39 per cent in 1985 and it had reached to 3.39 per cent in 1986. The exports showed the following trend: USSR's share was 1.26 per cent in 1980, 0.57 per cent in 1981, 0.65 per cent in 1982, 1.44 per cent in 1983, 2.35 per cent in 1984, 3.79 per cent in 1985 and 4.09 per cent in 1986.

One very important development of this period is the reopening of the border trade between the bordering provinces of China and the Soviet Union, first time after the year 1968. The commodities to be exchanged are canned park, knotted goods, vacuum bottles, and enameled products, timber, cement, glass, motorcycles and refrigerators. In 1984, the Sino-Soviet border trade rose 2.5 fold against the 1984 level while in 1985 it exceeded

the 1984 level by 115 times. In 1986, the Sino-Soviet border trade in the Far East was given another boostly further extending it to new areas and covering vast variety of commodities.

The composition of merchandise has undergone a substantial change when compared with the commodity composition of 1950s. In 1980s, the main export items of China to USSR are textiles, light industrial products, cereals, edible oils, foodstuffs and electrical machines. Soviet Unions exports machinery and equipment, rolled ferrous etc. They also exchanged generators, locomotives and telecommunications in equipments.

Chapter III deals with the future prospect of Sino-Soviet trade and how it affects Indo-Soviet trade.

CHAPTER - I

THE HISTORICAL BACKGROUND

THE HISTORICAL BACKGROUND:

The treaty of friendship, alliance and mutual assistance between the Soviet Union and the People's Republic of China opened a new chapter in the history of economic relations of the two countries. The trade between the two countries was of crucial importance for both the countries. After signing a friendship treaty on February 14, 1950, Soviet Union and People's Republic of China signed a trade agreement on April 19, 1950, which laid down the general legal principles of trade relations between them. At the same time some other agreements were signed on the instituting of the following Sino-Soviet joint stock companies:-

- a) the Sovsinmetal (Chugsuchinshukungssu) to prospect for extract and process non-ferrous and rare metals in Sinkiang province;
- b) the Sovsinoil (Chungsushihyukungssu) to prospect for and extract oil, gas and oil byproducts, and process them in Sinkiang province;
- c) the SKOGA company (Chungsuminhangkungssu) to operate air services.

Under the agreements signed for a term of 30 years Sino-Soviet joint stock companies were set up on a parity basis with provisions for the parties equally sharing in the capital of the companies and in the management of their affairs.

The trade statistics of China and the Soviet Union shows various ups and downs. The first decade after the formation of the People's Republic of China was crucial for giving a solid foundation of the economy of China. While in mid-1930s, China's foreign trade with the Soviet Union and the other Eastern European countries was below 5 per cent, the share of this group had risen as early as 1950 to 38 per cent. In the 1950s the Soviet Union participated in about half of Chinese foreign trade, the other socialist countries had barely 20 per cent and the remaining 30 per cent was distributed among the non-communist countries. If looked at the Eastern European countries separately, the Soviet Union supplied 72 per cent of the goods of this group and received 74 per cent of all Chinese exports. In 1948, Soviet Union held ninth place in Chinese exports, third place in 1949 and then moved to first place by the end of 1950.

It is important to note that before 1949, Chinese trade was predominantly with the non-communist industrial nations, immediately after the communist take-over the shift was changed towards the communist block, which was strengthened after the breakout of Korean war as the major non-communist countries imposed embargo and did not relent until much much later. The total Chinese trade with socialist countries rose from 21 per cent in 1950 to 51 per cent in 1951, from 70 per cent in 1954 to 75 per cent in 1955. Half of the total being with Soviet Union alone. The same can be given a look here:

Foreign trade transactions of the People's Republic of China according to group of countries.(in millions of US dollars)

Group of countries	1950	1952	1955	1957	1960
Total = 100	1560	1761	2686	3021	4000
Socialist countries	594	1288	1945	1960	2544
Western Industrialised countries	210	1171	351	560	721
Asia, Africa & America	756	356	390	501	735

CHANGING TRENDS IN TRADE:

Sino-Soviet trade can be divided into five major phases according to the economic and trade developments of these countries:

1. The three years of rehabilitation, 1950-52, of Chinese economic development;
2. The period of first Five Year Plan of China, 1953-57,
3. The period of second Five Year Plan of China, 1958-62;
4. The period of low level of trade from mid 1960s to late 1970s; and
5. The trade in 1980s.

The first three phases can be shown by taking the value of SinoSoviet trade between 1950 to 1962. The period from 1950 to 1956 registered a steady growth of trade. It slowed down a bit in 1957 and again in 1958 it increased appreciably and finally reached a new high of \$ 2 billion in 1959. In 1960 the volume again declined, and in 1961 it was only 55 per cent of the 1959 figures. In 1962, the volume of trade fell to 36 per cent of the 1959 levels.

This trend is shown in this table:

The value of Sino-Soviet Trade, 1950-62.
(in Millions of US dollars)

Year	<u>Total Turnover</u>		Chinese Exports	Chinese Imports	Excess of Exports (+) Or Imports (-) of China	
	Value (1950=100)	Index			(+)	(-)
1950	579	100	191	388		197
1951	809	140	331	478		147
1952	968	167	414	554		140
1953	1173	203	475	698		223
1954	1337	231	578	759		181
1955	1391	240	643	748		105
1956	1497	258	764	733	31	
1957	1282	221	738	544	194	
1958	1515	261	881	634	247	
1959	2054	354	1100	954	146	
1960	1663	287	847	816	31	
1961	928	160	551	367	184	
1962	749	129	516	233	184	

Sources: 1950-58: M. Saldlovsky, *Razvitie torgovti Sovetsko
Soyuzas Kitaiskoi Narodnoi Respublikoi; Vneshniaia
Torgovlia*, October, 1959, pp.3, 6, 9.

THE PERIOD 1950-52:

This was the rehabilitation period for China's economic development. In this period, the USSR delivered equipment, machines, and consumer goods to the value of 5,683 million rubles to China. Soviet Union imported from China various goods worth up to 3745 million rubles. In the course of these years, the volume of goods exchanged between USSR and China rose constantly, and increased by almost 70 per cent. To meet its needs of Chinese reconstruction in Manchuria, the value of Soviet equipment and machinery deliveries totalled 1,230.8 million rubles or 21.6 per cent of the total value of Soviet exports to China in that period. In the same period USSR increased its imports from China from 765 million rubles in 1950, to 1655 million rubles in 1952.

THE PERIOD 1953-57:

People's Republic of China launched its First Five Year Plan in this period. The two way trade increased strikingly in this period. Soviet exports to China showed a 27.7 per cent increase in the first four years.

The decrease in exchange of goods in 1957 occurred principally because of the decline in Soviet exports to China. This could be due to; 1. The delivery was completed on goods supplied by the Soviet Union through credit granted to China, in 1950-54 period. 2. In 1957, the People's Republic of China suffered economic difficulties and slowed down its rate of capital construction.¹

THE PERIOD 1958-62:

This was the period in which Sino-Soviet trade underwent a great fluctuation. The trade had an upward trend in 1958 and 1959 but this was reversed in 1960. The record year for the Sino-Soviet trade was 1959 when China's exports to USSR reached \$1100 million, almost as much as the total turnover of 1953. In the same year, Chinese exports registered a 25 per cent increase over 1958 figures. In 1960, the total turnover of Sino-Soviet trade fell by 19 per cent. Owing to the deterioration in agricultural conditions, China's exports to the USSR

1. M.I. Stadkovsky, "Soviet Chinese Economic Collaboration. Ten years of People's Republic of China, June 22, 1960, pp. 236-37.

declined more than her imports - the decreases were of 23 and 14.4 per cent respectively. Nevertheless, China's volume of imports from the Soviet Union was higher than any other year, with the exception of 1959. Although China still showed an export surplus of \$ 31 million, it was \$ 320 million short of anticipated amount.²

The year 1961 saw a new low rate trade between China and the USSR. The total value of turnover declined by 44 per cent. The reduction of Soviet exports was more striking than the Chinese exports. Although China's exports to the USSR declined by 35 per cent, Soviet exports to China were cut by 55 per cent. The most impressive decrease, however, was in Soviet exports of machinery and industrial equipment, from \$ 504 million in 1960 to \$ 108 million in 1961. The share of these commodities in total Chinese imports from the USSR dropped from 62 to 30 per cent. In 1962, the USSR exported about \$ 230 million worth of goods to China, and received about \$ 500 million worth. Compared to 1961, Soviet shipments fell by more than a third, while Chinese exports to the Soviet Union declined less than 10 per cent.

2. Soviet Sources give figure as 288 million roubles at the new exchange rate established, January 1, 1961. Vneshniaia Torgovilia, No.5, May 1961, pp.17.18.

COMPOSITION OF MERCHANDISE:

Over the time, the composition of the merchandise traded between People's Republic of China and the Soviet Union has undergone substantial change. In 1950-52, the items of greatest importance exported by the USSR to China were equipment and machines, ferrous metals and petroleum and petroleum products. According to official Soviet statistics, during these three years, the value of Soviet deliveries of equipments and machines increased 3.8 times and amounted to 1230.8 million rubles. This represents 21.6 per cent of the total value of Soviet exports to China in that period.

Apart from capital goods, communist China also imported considerable quantities of cotton cloth from the USSR in these years.

China's exports to the Soviet Union during the period 1950-52 were basically in the form of foodstuffs, food and non-ferrous and alloy metals. In 1950, Food and foodstuffs represented 47.1 per cent of Chinese exports to USSR. In 1952, still the most important single item,

they accounted for 44 per cent of total exports. The export of non-ferrous and alloy metals and concentrates to the USSR increased more than 3.5 times, and their percentage to total exports rose from 10.7 to 17.7 per cent.³

The USSR imported such products of the Chinese textile industry as silk and woolen cloth and knitted goods. However, the ratio of these products to total Chinese was only 0.01 per cent. The changes in the composition of trade can be seen in the table-1 given in the Appendix.

In the period of China's first Five Year Plan (1953-57) Soviet exports to China showed a constant growth in production of equipment. By 1957, the value of equipment deliveries amounted to almost half of the total value of all Soviet exports to China and was estimated by Soviet sources at 4664 million rubles (\$ 1,166 million), including complete sets of equipment was intended for the 141 industrial projects being built in China according to Soviet plans and with Soviet

3. For the composition of Sino-Soviet trade from 1950 to 1962, see Table-1 in the Appendix.

assistance. Exports of Soviet petroleum also increased considerably in this period. In 1957, the last year of China's First Five Year Plan, the USSR exported 1.9 million tons of petroleum by-products to China. Total exports of these commodities during the five year period reached 5 million tons. Exports of ferrous metals from the USSR to the People's Republic of China amounted to 1337.3 million rubles (\$ 334.3 million) in five years. One important change which materialized in this period was the suspension of Soviet exports to China of cotton cloth and other consumer goods. This occurred in the latter years as a result of China's increased production of these items.

During the period 1953-57, food and foodstuffs constituted the overwhelming bulk of Chinese exports to the Soviet Union. Until 1956, they still accounted for 40 per cent of all such exports. Non-ferrous and alloys metals ranked second, their value increasing from 403 million rubles (\$107 million) in 1953, to 566.6 million rubles (\$141.7 million) in 1957. There was a substantial increase in the proportion of finished and half-finished goods during this period. In 1953, 12.2 per cent of all exports were in the form of textile

raw materials, while only 3.6 per cent were textile manufactured goods. In 1957, however, the share of the first category decreased to only 6.6 per cent, while the share of the latter rose to 14.7 per cent.

The composition of Sino-Soviet trade followed a rather different pattern after 1958. First, between 1958 and 1961, there was considerable fluctuation in Soviet exports to China. In 1958, these categories formed 50.2 per cent of all Soviet exports to China, as the percentage rose to 62.6 in 1959 and 61.7 in 1960. But it then dropped sharply to 29.4 per cent in 1961. In contrast to the decline in exports of machinery and equipment, there was a constant increase in deliveries of petroleum and petroleum products, which rose by 14.6 per cent in 1958, 13.8 per cent in 1960, and 32.9 per cent in 1961. The last remarkable increase was related to the increase of utilization of agricultural machinery and tractors following China's decision in 1961 to give total support of agricultural development. During this period, Soviet exports of food to China were negligible. In 1961, with the shipment of 500,000 tons of sugar to China, Soviet food export accounted for 17.4%

of total exports - a unique occurrence in the 13 years of trade relations.

The nature of Chinese exports to USSR also changed considerably. Food exports accounted for 27.4 per cent of the 1956 total volume, declined to 26.1 per cent in 1958, 19.9 per cent in 1959, 15.1 per cent in 1960 and was only 3.2 per cent in 1961. The gap was filled through greater export of consumer goods, which increased from 28.5 per cent of the 1958 volume to 62.4 per cent of that of 1961.⁴ This made China by far the biggest supplier of consumer goods to USSR.

The most striking phenomena in Sino-Soviet trade during 1962 were in the great decline of Soviet shipments of machinery and petroleum and in the continued increase of Chinese deliveries of foodstuffs. In 1962, the value of Soviet exports of machinery to the People's Republic of China was only about \$ 27 million, compared with \$ 107 million in 1961. Soviet exports of refined oil products for that year totalled 1,856000 metric tons -

4. Dimensions of Soviet economic power, p.738.

a sharp decline from the 2,928,000 tons of 1961. On the other hand, the USSR shipped 1,120,000 watches to China that year, as compared to 24000 in 1961. China exported 150,000 tons of Rice to the Soviet Union in 1962, compared to 2000 tons in 1961. Yet Chinese shipments of metallic ores and concentrates fell to about \$ 35 million in 1962 compared to almost \$ 50 million in 1961.⁵ This composition was a strong contrast to the trade of the 1953-59 period when 90 per cent of Soviet exports to China were in the form of capital goods.

SOVIET AID AND CHINA'S ECONOMIC DEVELOPMENT:

With the expanding Chinese economy, volume of trade is increasing overall, but there is a significant increase in its trade with the socialist group of countries.

THROUGHOUT THE 1950S:

There was a one-sided turn to the socialist countries. This was a political decision which, even

5. The Economist (London), May 26, 1956, p.818.

before the founding of People's Republic of China, Maotse-hung and taken under the slogan 'Leaning against one side'. China was supposed to learn from the socialist examples of Soviet Union and assimilate that country's experiences in building socialism. The Soviet Union and other socialist countries offered a large market for Chinese agricultural products and raw-materials and were not only willing to supply China with capital goods in large quantities but also - particularly the Soviet Union - were able to give credits and technical aid. But the Western trade embargo, in which all the important industrialised Western countries had jointed mainly led to this strong dependence on the Eastern European countries.

Until 1954 China concluded bilateral trade agreement with all the Eastern block countries, with the exception of Yugoslavia. In the pacts with the Soviet Union and China, a small swing of 6 and 2 million old roubles was agreed on (less than a per cent of Chinese imports from USSR); excesses going beyond this swing had to be paid at 2 per cent interest and within three months.

This ruling was apparently very leniently observed - in favour of China - during the 1950's. Besides, the Soviet Union extended the long term credits. In 1950 a credit of equivalent of 300 million US dollars in five equal instalments at 1 per cent interest, to be paid back within 10 years beginning in 1954; and in 1954 another credit at the equivalent of 130 million dollars at the same rate and conditions of interest.

There is little doubt that at least up to 1957, China's growth rate was boosted by its imports surpluses and by the large capital equipment component of these imports. Therefore, and especially after 1960, its growth rate suffered as it ran export surpluses to repay debts and extend aid to other countries, and as its own capital goods exports probably surpassed its imports of such goods - until at least the late 1960s. Thus it is quite likely that the higher growth rates of earlier years and the lower ones of the later years were significantly influenced by foreign trade and aid.

The most important aspect of Soviet aid consisted in supplying complete plants and enterprises for Chinese light and heavy industry, the backbone of the investments

during the first Five Year Plan (1953-57). By various agreements the Soviet Union committed herself first to 211 enterprises; later this was consolidated into 166 complete plants, which were to be installed by 1959. For the second Five Year Plan (1958-62), the supply of another 125 complete plants was scheduled. Starting in mid - 1950's, the other Eastern-European countries - particularly the GDR and the CSSR - also participated in the supply of such key projects, of which a total of 68 were contracted for by 1960.

In the same period, the Soviet Union supplied to China 943000 tons of ferrous metals which was equivalent to about 40 per cent of her total output, 1.5 million tons of petroleum products, including 506000 tons of petroleum and 477000 tons of kerosene. Soviets also gave to Chinese the blueprints, patents and licences; they drafted projects and made economic and technical analysis. They trained 8000 Chinese engineers in Soviet Schools and factories and invited 7000 Chinese students to study at Russian Universities and other scientific institutions. Under this programme almost 11000 Soviet specialists worked in all branches of the Chinese economy, and further more, about 15000 technicians and specialists from other

Eastern European countries participated. The technical aid and service of these experts without doubt greatly strengthened technical progress and by spreading technical knowledge and organisational talent, contributed to an efficient utilisation of Soviet capital aid; in many cases it was indispensable for such utilisation.

There is total disagreement as to how much aid had been supplied by the Soviet Union to China, not only between the governments of these two countries but also among Western analysis of the subjects. Some of the difficulty arises from the ambiguity of the word itself. As far as is known the Soviet Union had not given any free aid - aid not subject to eventual compensation except in a few limited categories where the value Soviet aid to China therefore consists of financial credits or loans for various purposes and of the supply of goods on terms of deferred payments. The distinction between aid and trade thus becomes difficult to draw, according to one Soviet article the aid can be estimated at \$ 7800 million (31,200 million in old roubles) - a figure which coincides almost exactly with the total value of Soviet exports to China in the period 1950-63. If normal trade relations are regarded as aid in this way, then the work

becomes meaningless. Other Soviet sources claim a total aid figure for 1950-62 or 18,160 million roubles. Supplied on favourable terms to eleven long term credits. Even this figure is more than twice the outside estimates, and must include a high proportion of normal two-way trade transactions. If it were accurate, it is difficult to see how it could have been rapid by 1965, when Chinese debts to Soviet Union were finally liquidated.

THE PERIOD FROM 1960 TO LATE 1970S:

In the sixties, there is a sharp decline in trade between China and the Eastern European countries. The ideological conflicts between the communist parties of China and the Soviet Union certainly delayed the consolidation of trade with majority of Eastern European countries but at the same time it also made the mutual dissatisfaction visible. An open letter of the CPSU to Chinese Communist Party deplored the decline of trade relations, and Chinese leaders were held responsible for the heavy damage resulting from China's one-sided actions towards the Soviet Union and other socialist

countries. The leaders of China, on the other hand, accused the Soviet Union of having recalled 1390 Soviet experts working in China, of having broken 343 pacts and other agreements, and of having interrupted a total of 257 projects involving scientific and technical cooperation, all through their one-sided decision of 1960. In this connection, the Soviet Union was also accused of practicing economic exploitation and obstructing the industrialisation of their economically weaker partners in COMECON. China had economic and political reasons for reducing one-sided orientation of trade with Soviet Union. But the Soviet argument may also be true that the shrinkage of trade with China had damaging repercussions for the Eastern European countries. Although the Chinese trade constituted less than 6 per cent of total trade of Eastern European countries, except Soviet Union, in view of the inflexible bilateral planning of foreign trade, changes could be made only with great losses involving friction.

The effect of this rapid decrease became apparent mainly in those branches where the quota of exports to China was particularly high. This is true, for example, for machines and equipments exported to China from the Soviet Union, they constituted more than 60 per cent of

Soviet deliveries.

It is hardly surprising that the withdrawal of this help in mid 1960 added confusion to China's economy already confounded by a disastrous harvest. Undeniably, China had to pay in exports of equal value for all the machines and technical help received but free access to Soviet scientific and industrial knowledge patents, blueprints, and patterns saved her years of trial and error and incalculable amounts of time and money. The gravity of the matter was not immediately admitted on the Chinese side.⁶ Indeed the subject tended to be brushed aside on the grounds that the experts who had been withdrawn had finished or that a mild tiff between friends was not a serious matter. However, by 1964, the Chinese government was collecting every jock and little of evident of Soviet experts, the tearing up of 343 contracts, and the cancellation of 257 projects.

The Sino-Soviet trade reached the lowest ebb and both the countries started expanding their respective

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6. Edgar Snow - The Otherside of the River.

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trade ties with Western countries and developing countries as well. Japan, Hongkong and U.S. emerged as the leading trade partners of China and this continued throughout 1970s. It was only in 1976 that Sino-Soviet trade looked up respectively. The increasing volume of Sino-Soviet trade has become an interesting area of debate, to be watched and to study.

THE BALANCE OF TRADE:

In the First Five years China imported heavily from Soviet Union, resulting in the imports exceeding exports, untill 1955, Chinese imports from Soviet Union exceeded exports by \$ 100 - \$ 200 million annually. By that year end, China's aggregate trade deficit had reached \$ 993 million. The two Soviet loans granted in 1950 and 1954 jointly amounted to \$ 430 million - or enough to finance about 45 per cent of the trade deficit.

According to official Soviet statistics, China began to repay her trade deficit to the USSR in 1956, starting with the modest in 1958, and approximately \$ 185 million in 1961. In 1962, China reduced her imports

from USSR to \$ 233 million.⁷ But since China only slightly reduced its exports, it was able to achieve a surplus of \$ 283 million. Thus by excess of exports, China has not only been able to repay its total trade debt to the Soviet Union but also to achieve a surplus of \$ 123 million.

In late 1960s the trade was almost balanced with slightly favouring China in 1967 and the Soviet Union in 1968. The two way trade further declined in 1969 and 1970 with almost balanced exports and imports. Trade began picking up in 1972 and continued to increase moderately till 1978. The imports and exports hardly having any significant difference. It was in 1976 that Soviet exports suddenly increase from \$ 165 million in 1975 to more than \$ 300 million in 1976. The imports however maintained the previous level. Balance of trade favouring USSR in 1976 and 1977, maintained in old balance right upto 1980.

THE TERMS OF TRADE:

In the agreement concluded on April 19, 1950,

7. Vneshiaia Torgolia SSSR za 1962, god, Op. Cit.

between Soviet Union and China, both parties agreed that commodity prices for goods exchanged were to be fixed on the basis of world market price prevailing in that year.⁸ In the subsequent years, most of the prices remained unchanged. There are examples when the world prices were high but the price of Soviet machinery was comparatively low. This happened at the time of Korean war. Whereas a Chinese source testified that prices of various machinery imported from the Soviet Union were 20 to 30 per cent lower, and in some important power generating equipment the prices were 30 to 60 percent lower than prices of similar equipment on the British and American markets.⁹ There have been instances of fluctuating prices also, and this was voiced by China as early as the 1950s. In a speech before the Peoples Congress in 1957, the Chinese Foreign Minister had pointed out that, the prices for oil and soybeans agreed on with the Soviet Union as well as those for steel and other goods, were above world market prices during several years, while in others they fell below. Although a comparison of prices is still possible

8. M.I. Sladkovksy , Op..Cit., p.18

9. Soviet & East European Foreign Trade, Spring 1972, p.67

for goods like oil and soybeans, such a comparison must fail for steel because of great differences in type and quality.

One study made for the years from 1955 to 1959, comes to the conclusion that in trade with Soviet Union in the case of thirty selected commodities, price differences of up to 30 per cent could be noted. These differences are explained first by the differences in quality; second by the market position of the Soviet Union, which in view of the embargo - could dictate prices, and third, by particularly high transportation costs, since more than 90 per cent of all imported goods were shipped by rail to China. The varied influence of these three factors could, however, not be determined in quantitative terms; the study only notes in general that the conditions of trade with Soviet Union developed unfavourably for China. Since no quantitative evaluation of these facts can be given for statistical reasons, we cannot disprove the assertion of the Chinese foreign minister that China was treated fairly by the Soviet Union through the years in the matter of foreign trade.

Several other sources hint that the terms of trade

have been infavourable to China. One official Chinese statement disclosed that the price of products imported from the USSR usually at least 30 per cent higher than the prices for similar goods produced in China.¹⁰ Another hint lies in an incident that occurred in 1952, when a substantial quantity of soybeans exported from Manchuria to the USSR was then sold by the Soviet Union in London at a price much lower than the Chinese communists bid in Hongkong. According to reports appeared in a weekly, bulletin of market conditions' published by Chinese communists in Canton, in January 1952, British firms purchased Chinese soybeans in Hongkong at £53 per ton. But the USSR only £ 47 per ton. Information from local traders indicated that the Soviet government had a trade agreement to import Chinese soybeans at only £ 22 per ton - only half the price of the international market. This enabled the Soviets to resell the Chinese soybeans at a price even lower than that bid by communist China's trade company in Hongkong.

A more significant consideration that the price

10. Cheng Chu Yuan - The new Tendencies of financial and economic policies in Communist China, Hongkong; Freedom Press, 1953, 1, 152.

formula is the quality of merchandise involved in Sino-Soviet trade. Generally, the products which the China has exported to the USSR have been carefully selected. Many major commodities were selected under the direct supervision of Soviet consultants. Soviet exports to China have always been on highest quality. The most important Soviet export to China, the machinery and equipment, has been indicated in several Chinese reports as of a poor grade. A major survey conducted in 1954 by the 'Division of Productions of the First Ministry of Machine building Industry of the People's Republic of China, disclosed that the major components of new lathes imported from the USSR in 1953-54 had worn out rapidly. Accordingly to the statistics for plants under the supervision of this ministry 5100 lathes had worn out during the first half on 1954. In the Shenyang high and low pressure switch factory, some 72 per cent of the new lathes had worn out with a short time after installation. In the Nanking Lathe Factory, 22 of the 28 new lathes imported from the Soviet Union worn out within their first year of use. Although the Chinese statemer blamed native workers and technicians with low skill for the high rate of loss, it also implicitly acknowledged the inferior quality of Soviet products.

MAJOR FEATURES OF SINO-SOVIET TRADE:

The trade between the Soviet Union and China has been conducted by the governments according to the bilateral agreements. List of goods to be exchanged are included in the annual protocols. One peculiar aspect of Sino-Soviet trade is, however, that constant prices and exchange rates were maintained for a period of eight years, without any substantial alteration or adjustment.

According to an official Chinese report, between 1950 and 1957 the terms of Sino-Soviet trade remained unchanged despite high price fluctuations in international market.¹¹ The same was true of the rate of foreign exchange. When the first rate of exchange between the Russian rouble and Chinese jen-min-pei was established in April 1950, one rouble was set to equal 0.975 jmp. This official rate prevailed for eight years although the non-trade exchange rate reached one jmp for two roubles. This rigidity of price and exchange rates was emphasised by a Soviet economist: Under the long

11. Speech to the National peoples congress by Minister of Foreign trade of China, July 30, 1957,

terms of Soviet-Chinese treaties, the stability of prices and trading conditions excludes the elements of seasonal fluctuations so common in capitalist practices and fully satisfies the requirements of the planned economies of the Soviet Union and China.

Another notable characteristic of Sino-Soviet trade lies in the fact that the annual trade volume not only reflects total commercial activity but also includes economic assistance and military shipments. Soviet exports to China include regular trade deliveries, deliveries under the economic aid programmes, and deliveries and military aid programmes. Chinese exports to USSR in the same period included trade deliveries and repayment of interest and principal on previous Soviet loans. In the official Soviet trade statistics, in the annual report on commodity composition of exports to China there is a considerable percentage of unspecified items. In 1953, these unspecified items accounted for 57.2 per cent of the total Soviet exports to China. They were 51.9 per cent in 1954, 43.1 per cent in 1955, 32.6 per cent in 1956, 22.2 per cent in 1957, 19.1 per cent in 1958, 17.3 per cent in 1959, 13.1 per cent in 1960 and 5.2 per cent in 1961.

12. For 1953-54, China weekly No.402, September 26, 1960, p.1 for 1955-61, Congress of United States, Joint Economic Committee, Dimension of Soviet Economic Power. (Washington D.C. Government Printing Office, 1962), p.738

THE STRUCTURE OF GOODS IN TRADE:

In Sino-Soviet trade in the 1950s, China's imports were concentrated on capital goods and some raw-materials for industrial use, particularly metals and exports on agricultural products - foodstuffs, soybeans, oily grains, skins and furs, as well as non-food stuff like non-ferrous metals and textiles. Among Chinese imports of capital goods, machine and equipment predominated their share at the end of the 1950s reaching more than 60 per cent. Another characteristic of this groups of imports is the high number of 'key projects' that is, complete factory installations for steel plants, chemical plants and refineries, power plants and transport installations. These imports formed the backbone of the total investments in the first and second Five Year Plans. The changing structure becomes apparent on analysing in details:

The pattern for exports and imports has been widely divergent. Chinese imports sustained by Soviet credits of the earlier period reached a peak in 1954. Slight declines in 1955 and 1956 were followed by the sharp drop in 1957. In that year, imports declined by 25 per cent or to 30 per cent below the 1954 level.

Chinese exports, by contrast continued to expand through 1956. After a slight decline in 1957, the tendency to increase was resumed in 1958 and continued through 1961. Despite the fact that China suffered from three years of crop failures, here exports surplus in trade with the USSR reached \$ 184 million in 1961. At the same time, Soviet exports to China fell to the lowest level since 1950.

The broad classification of trading items in Sino-Soviet trade is done into three groups - metals - machines etc., foodstuffs and agricultural raw materials and textiles. On the part of China, apart from the tremendous drive to pay off debts that started in 1958-59, their most interesting feature is the startling change that took place in their composition, showing a massive shift to textile and clothing. This continued for quite some time upto mid-1960s.

In the 1970s the composition of trade had undergone a drastic change. The Soviet export items which used to take lead in the Chinese imports, were now replaced by Japan, Hongkong and the USA some traditional items continued to be traded with some minor changes. Among the Soviet exports, aircraft was the leading export item, followed by passenger cars. After 1976, China stopped importing passenger cars from Soviet Union.

Main import items of Soviet Union from China were clothing and household goods, silk fabrics and fresh fruits, ores and concentrates and non-ferrous metals being other imports.

The remarkable change in the composition of trade was the result of the changing needs of the respective economies. The economic modernisation programmes of China and strained relationship with the Soviet Union made China to lean towards the West for sophisticated technological requirements. This continued through out the 1970s. Although towards the closing of 1979, there were some new problems faced by China's economy. The increasing protectionist tendencies in the West may again force the several countries trading with the West to reconsider their priorities. In this perspective the development in Sino-Soviet trade relations in the 1980s is a matter of great interest.

As a final word about the trade growth rate China experienced while trading with the Soviet Union as its leading trade partner in the 1950s and the lowest ebb reached in 1960s, then again upward looking trend in late 1970s.

In the 1950s China experienced growth rate that

was at least to a degree trade led. The rate of increase in trade, 12.4 per cent in that period was almost double the growth rate of China's GNP, which was 6.7 per cent. In the 1960s reverse was the case, from 1959 through 1969, while trade stagnated, GNP grew by a total of 45 per cent. Although the average rate of GNP growth was very low - only 3.8 per cent compared with either the 1950s or the 1970s nevertheless there was some growth but not overall increase in trade over the ten year period. From 1969 through 1977, China's growth was again trade led. In this period, while GNP increased about 76 per cent (in constant 1977 dollars) at an average rate of about 7.3 per cent, trade rose more than 277 per cent in current prices (287 per cent if Western estimates are used 277 per cent with Chinese data for 1977) at a rate of roughly 18.4 per cent a year; in constant prices the average rate may have been close to 15 per cent. The trade again increased appreciably after 1977 through 1979.

CHAPTER - II

SINO-SOVIET TRADE 1980-86

SINO-SOVIET TRADE 1980-86:

Sino-Soviet trade has uptill now been greatly affected by politics and any major decision on policy matters of trade depended on the political relations, the economic compulsions to be considered on the secondary level only.

The developments within these respective countries and on the international scene in 1979 and early 1980s opened new visits for both the countries. The US-China relations had calmed down in comparision with their enthusiastic period in 1979, began to cool even further due to continued military supplies to Taiwan. Although the issue was settled tentatively with the announcement of a joint US-China communique, China's political leaders seemed to recognise the limits of the anti-Soviet united front. On the other hand, the 'text book' issue between Japan and China in the summer of 1982 revealed the difficulty of Japan-China relations inspite of the increase of treaty volume with Japan.

China found itself in the stage of 'noreturn' from the four modernisations and started the search for

new lines of developments during the years 1980-82.¹

It² is possible to determine through the analysis of treaty trends, that China began to importance of the Third World and the Soviet Union. The year 1981 marked a turning point in this process.

This was the period when the economy of China, though improving substantially needed to be activated industrially. The raising of the export in volume had become the desired objective. With the protectionist tendencies of the USA and other western trade partners of China, towards China's textile exports, China could see Soviet Union as a potential market for China's textile exports.

The Soviet Union, on the other hand, was becoming more and more open to talks and spoke in terms of ending the hostilities between the two countries. So in low the ground was being prepared for these two giant to neighbouring countries to look to each other with new faith and new ideas. Politically, the process of normalisation was still a thing of distant future with the existence of three obstacles, both sides had begun

2. International Quarterly, December, 1987, p.171

to realise that some kind of environment was needed for keeping the door opened and what else could be better for the two countries than an improved economic cooperation and increased trade with each other.

The economic compulsions of both the countries made them come closer to each other. China's modernization programmes and her experiment of special economic zones S.P.Z., which did not produce the expected results, left Chinese leadership with limited options. Also, with equipment originally installed under Stalin still remains operational in China.³ China Peking stressing the cost efficiency of re ovating existing plant rather than building on new green field sights, Soviet spare parts would likely to be in demand.

The Soviet economy was confronted with many problems. The economic policies followed under Brezhnev produced poor results. The heavy agricultural investments had given limited and uncertain results, the demographic trend on the other hand had become discouraging as the labour resources had not bright prospects. The marketing and price policy

3. China Trade Report, 1983, Feb. p.19

which was outdated, hampered the growth already stagnated because of the saturation of extensive development. Fall in oil prices had made hard currency availability still less. The growth rate of the economy could never go beyond 2.5 per cent annually, in real terms it was only 1.5 per cent.

The problem of the production of poor quality products was faced by both the countries. Both China and the Soviet Union found it difficult to compete in world market with their poor quality exports. The problem of falling oil prices was also faced by both the countries. Both the countries needed to boost their economies by earning through exports. It was felt growingly on both the sides that a practical economic approach as separate from political one was the need of the hour, faced as they were with the statements in their economies. It was felt that China could export more light manufactured goods and more conventional items to the Soviet Union. On the other hand, Soviet Union had been needing labour resource a thing in abundance in China for the use into Siberian fields, and labour intensive products like cotton textiles, other commodities which cannot be grown in the USSR owing to geographical factors.

REVIEW OF DEVELOPMENTS IN SINO-SOVIET TRADES:

A real turning point in relations was reached in 1982. The volume of two way trade reached \$ 386 millions from \$ 277 millions in 1981, an increase of 37 per cent. In March of that year, Brezhnev delivered a speech in Tashkant calling for Sino-Soviet cooperation and commenting favourably on the main lines of change in China. He sought to appeal in the speech, to the Chinese leadership by saying that the USSR had never denied the Socialist character of the Chinese system and that it supported the Chinese claim to Taiwan. In 1983, the two countries signed a one year treaty which was to increase the two way trade from \$ 386 million in 1982 to \$ 800 million. Under the agreement, China was to import machinery, timber, lorries and fertilizers and was to export textile, food and some minerals.⁴ In July 1983, came the symbolic but important gesture - the reopening of Sino-Soviet border trading posts on the Central Asian frontier for the first time after a lapse of 25 years. In this year, the two way trade between China and the Soviet Union reach \$ 760 million, an increase of nearly 100 per cent over the previous year. The commodities exchanged

4. China Trade Report, 1983, March, p.3

were meat and meat products, tea and livestock products, cooking oils, oil seeds cement, metals and machinery equipments besides the conversional items. The same year saw a worsening Sino-Soviet trade relations as the US government curtailed textile imports from China. The Chinese, in turn relating by cancelling all orders from the US and by refusing to extend an invitation to the American defence secretary Casper Wienberger to visit China. The natural replacement become USSR and Sino-Soviet trade increased in textiles.

In 1984, the first big break came with the visit of Mr. Arkhipov, and the new agreements on trade, economic scientific and technical assistance were signed. The trade in this year amounted to \$ 1255 million, crossing the billion mark for the first time. In the same year, in December, it was decided to further increase the trade.⁵ The Soviets were facing cash flow problems and the western embargoes faced USSR to change its direction of trade. Its imports with the west had fallen by 16 per cent. Soviet imports from China increased by 83 per cent over 1983, while its exports to China

5. E.I.U. (London), 1985, p.17

increased by 52 per cent over the same period. There was a clear shift in the direction of Sino-Soviet trade as is evident from the steady increase in the over all trade and the share of both countries in each others' total trade. Another feature of this year was that the proportion of the technology software reached 34 per cent of the total imports, also, the number of the industries that imported technology had increased. In the same year, China experienced a very impressive trade output.⁶ This was attributed to the following factors:

- a) depreciation of Chinese Yuan, which promoted exports but also inflated China's trade figures.
- b) remarkable growth in oil exports as a result of increased domestic output.

In 1985, a protocol covering a five year trade agreement worth \$ 14 billion, mainly for barter, was signed in January. With this, the annual trade agreements that had governed bilateral economic intercourse were replaced by the long term agreement. The agreement provided for design cooperation, the sharing of technology information

6. Business China, June 27, 1985.

the exchanging a technicians and supplying of equipment to upgrade Chinese industry.⁷ The total trade turn over in this year reached a high of \$ 2057 millions, an increase of 66 per cent over the level of 1984. China exported to the Soviet Union goods worth \$ 1037 million and imported goods worth \$ 1017 million, thus quantitatively a remarkable improvement. The over all economic performance of China was not very encouraging as the demands for exports were hampered by a slower world economy, the lower prices of oil and coal and the protectionist moves against textiles. China's rising deficit with Japan was threatening to cause a several irritants in relations between the two countries.

The year 1986 began with USSR and China signing \$ 500 million worth of contracts for generators, railway locomotives and telecommunications equipment. The over all trade reached a peak level of \$ 2702 million. China's exports to Soviet Union registered rise of 19 per cent over the 1985 level and China's imports to Soviet Union rose by 48 per cent over the same period.⁸ The share of Soviet Union in China's total trade had become 4 per cent.

7. Beijing Radio (Russian), Sept. 1985.

8. See the table in Appendix.

The USSR is climbing up the league table but is not the only country to have done so. Some of the east-european countries are also improving the trade relations with China. This improvement is not dependent on further diplomatic reppraochment, it is merely a reflection of the willingness of the socialist regimes to engage in barter trade. China has agreed to swap its textile and light industry products for Soviet generators with a capacity of 10,210 m.m.⁹ China's exports to USSR were 1/10th of its total exports and imports from the USSR were 1/17th of its total imports at the end of 1986. It was a marked improvement over the Soviet Union's share of previous years in comparision with the other countries.

For a closer look let us analyse the changing trends in the volume of Sino-Soviet trade, the composition of the merchandise, the balance of trade and the border trade separately.

CHANING TREND IN TRADE VOLUME:

The volume of Sino-Soviet trade in the period

9. E.I.U. Annual No. 1986-87, pp 171-8.

1980 to 1986, registered a steady growth with an exception of the year 1981 when the two way trade fell by more than 40 per cent over 1980. The volume increased in 1982 by more than 36 per cent reaching to \$386 million. Ever since 1982, there is an increasing trend in the volume of trade throughout this period. In this period (1980-1986) the imports had a compound growth rate of 33.16 per cent per annum while the exports experienced the rate of 46.69 per cent.

A comparison with China's main trading partners makes clear that there has been tremendous progress in the Sino-Soviet trade in this period. China's exports grew at the compound growth rate of 15.79 per cent per annum with the USA., 12.43 per cent with Hongkong, 3.84 per cent with Japan and 2.97 per cent with West Germany. The imports grew at the rate of 3.54 per cent with USA, 46.22 per cent with Hongkong, 15.82 per cent with Japan and 18.15 per cent with West Germany. Although the share of the USSR in the Chinese trade was merely 4 per cent in 1986-87 and seems to be very less than compared with other trade partners of China, the progress is not insignificant by any means.

The share of the USSR in China's imports was 1.32 per cent in 1980, then it reduced to 0.71 per cent in 1981, then again rose to 1.29 per cent in 1982, 2.07 per cent in 1983, 2.58 per cent in 1984, 2.39 per cent in 1985 and 3.39 per cent in 1986.¹⁰ The rate of annual growth in this period has been 41.67 per cent in 1981 over 1980, 57.79 per cent in 1982, 81.48 per cent in 1983, 51.93 per cent in 1984, 51.79 per cent in 1985 and 44.74 per cent in 1986 over the preceeding year.

The trend in exports has been like this: USSR's share was 1.26 per cent in 1980, 0.57 per cent in 1981, 0.65 per cent in 1982, 1.44 per cent in 1983, 2.35 per cent in 1984, 3.79 per cent in 1985 and 4.09 per cent in 1986.

Sino-Soviet trade in this period can be divided into two major phases. One the period 1980-82 and the second 1982-83 onwards.

THE PERIOD 1980-1982:

In the years 1980-82 the trade was influenced the political developments between the two countries

in particular and international affairs in general. Its worth remembering here that the two way trade between China and the USSR had crossed \$ 500 million in late 1970s. It seemed at that time that the trade volume between the two countries would be increasing significantly, but the Soviet intervention in Afghanistan raised the eyebrows of Chinese leaders and the result was seen in the declining volume of trade which plummeted to a low of \$ 277 million in 1981. One fact which deserves attention here is that conditions and compulsions of both the countries in these years were such that there was enough scope for the trade expansion between the two, but the political reasons dominated the scene.

The volume of trade picked up in 1982. There were attempts to improve the relations between the two countries and the initiation was taken by the USSR. China has some problem with the US over the Arms supply to Taiwan. These developments had some favourable impact on the Sino-Soviet trade in this period.

In this period, China has been importing more from Soviet Union than her exports. The difference between the volume of exports and imports was insignificant

in 1980 and 1981, (\$ 36 million in 1980 and \$ 31 million in 1981) it widened significantly in 1982 (\$ 100 million). The main items of China's imports being machinery, timber, lorries and fertilizers. The exports from China consisted of textiles foodstuffs and minerals.

THE PERIOD 1983-1986:

A new era in Sino-Soviet trade relations had begun in 1983. A one year trade agreement was signed in March 1983 which aimed at increasing the two way trade from about \$ 300 million in 1982 to \$ 800 million in 1983, an increase of 167 per cent. The volume of trade increased appreciably throught this period. In 1983 it reached to \$ 760 million and further increased to \$ 1255 million in 1984, \$ 2054 million in 1985 and \$ 2702 million in 1986.

Chinese exports to the USSR showed a remarkable increase in these four years. There was a 123.08 per cent increase in Chinese exports to Soviet Union in 1983 over the previous year, 83.30 per cent increase in 1984, 77.26 per cent increase in 1985 and 18.61 per cent in 1986. The exports increased from \$ 319 million in 1983 to \$ 585 million in 1984 and \$ 1037 million in 1985 to

\$ 1230 million in 1986.

Chinese imports from the USSR also increased appreciably throughout this period. It showed an increase of 81.48 per cent in 1983 over the previous year, 51.93 per cent increase in 1984, 51.79 per cent in 1985 and 44.74 per cent in 1986. The volume of imports increased from \$ 441 million in 1983 to \$ 670 million in 1984, \$ 1017 million in 1985 million to \$ 1472 million in 1986.

Thus there is a remarkable increase in two-way trade between the two countries. The important factors that contributed for this trend are:

- a) The opening up of China's economy to thwrold for its modernisation programmes.
- b) The Chinese policy of equidistance from the superpowers
- c) The improving Sino-Soviet relations throughout this period.
- d) The practionist policies of the US and some other western countries towards Chinese exports and trade embargoes on Soviet imports and
- e) The economic compulsions of both the countries.

BALANCE OF TRADE:

China's imports from Soviet Union exceeded exports in all these years with the exception of the year 1985, when its exports to Soviet Union exceeded by \$ 20 million. There is an increasing trend in China's trade deficit with the USSR. It has increased from \$ 30 million in 1980, \$ 31 million in 1981, \$ 100 million in 1982, \$ 122 million in 1983, when there were new trade agreements made, \$ 85 million in 1984 and the highest \$ 242 million in 1986. The new agreement signed in 1986, \$ 500 million worth of contracts for generators, railway-locomotives and telecommunications equipment will further increase the imports volume of China from the Soviet Union. This can be seen in the table.

CHINA'S BALANCE OF TRADE WITH USSR

Year	Exports	Imports	Million US Dollars Excess of Exports (+) or Imports (-) of China	
			(+)	(-)
1980	228	264	-	36
1981	123	154	-	31
1982	143	243	-	100
1983	319	441	-	122
1984	585	670	-	86
1985	1037	1017	20	-
1986	1230	1472	-	241

Source: Prepared on the basis of data given in the direction
of Trade Statistics, 1987.

BORDER TRADE:

Border trade has its roots in China-Russian trade dating back to the 1700s. After the establishment of the PRC, the Soviet Khabarovsk region launched border trade with China's Heilongjiang Province in 1957. Such trade peaked in 1959 and the cumulative value for the period 1957-1960 reached some 145 million yuan.¹¹

This border trade was suspended in 1968.¹² In April 1982, the foreign minister of two countries exchanged notes on its restoration and this was followed by the establishment of a new trade corporation on the part of Heilongjiang Province. That same year the Chinese corporation and All Soviet Trade Corporation for Asia signed a trade agreement for 1984. In the event the trade value for 1984 came to 17.45 million yuan.

The exports from Heilongjiang Province have consisted mainly of canned pork, knitted goods, vacuum bottles and enameled products and the imports of timber, cement, class motorcycles and refrigerators.

11. China News Letter Jan-Feb. 1986, p.17

12. Foreign Trade-USSR, Nov7, 1987, p.16.

B.T. is also conducted by the Xinjiang Uygur and inner Mongolian autonomous regions, B.T. by Xinjinag Uygur autonomous region has amounted to 144 million Swiss Frances (about US \$ 90 million). It is expected to mount about \$ 150 million in 1986. Exports from Xinjiang to USSR consist of Raw, cotton, spun and woven goods, hops and furs. Imports are cement, rolled steel, automobiles and chemical fertilizers.

The inner Mongolian Autonomous Regions Trade with USSR increased steadily from three million Swiss france. in 1983 to 17 million in 1984, and is expected to reach 50 million frances in 1985.

In 1984 the Sino-Soviet border trade rose 2.5 fold as against the 1983 level while in 1985 it exceeded the 1984 level over 1.5 times. Both the sides plan their border trade to grow in the future at the same rate as their general trade turnover. Its share comprises now approximately 1.5 per cent of the total Sino-Soviet trade.

In 1986 the Sino-Soviet border trade in the Far East was given another boost. Its geography extended to the Buryat Autonomous Republic and the Inkutsk and Sakhalin

regions. The other geographical areas involved in the two countries' border trade are Kazakh, Kirghiz, Takiz; Turkinen and Uzbek Socialist Republics, the Altai and Krasnoyarsk territories and the kemerovo region on the one hand and sinkiang-uighur autonomous region of China, on the other.

Under the contracts signed within the framework of border tradethe Soviet Union exports to China the following fertilizers, soda ash, cement, window glass, Sawn timber, firewood, motorcars, motorcycles, motor scooters and mopeds, washing machines, vacuum cleaners, frozen fish, agricultural implements and other consumer goods. It imports from China frozen pork and beef, canned meat and vegetables, sausages, soyabeans, groundnuts, fruits, knitted goods, garments and fur articles, textiles, footwear and crockery etc.

At the first meeting of USSR-China commission on Economic, trade, scientific and technical cooperation in March 1986, the sides expressed satisfaction with the headway made in trade. On his visit to China, Mr. N.V. Talysin, First Deputy Chairman of the USSR Council of Ministers, he signed a series of documents, including commitment on mutual deliveries of Soviet industrial products and Chinese farm produce over and above the volumes envisaged in the intergovernmental agreement on Trade turnover and payments for 1980-1990 to the tune of an extra 500 million rubles.

CHAPTER - III

CONCLUSION

CONCLUSION:

The preceding analysis suggests that the Sino-Soviet trade has expanded remarkably in the 1980s after the ups and downs in 1950s to 1970s. After reaching a peak level in 1959, the Sino-Soviet trade declined abruptly in 1960s and remained low through out the decade and a half. It was only in mid 1970s that trade between the two started picking up again. It reached \$ 473 million in 1979 and \$ 492 million in 1980. Again there was a decline in trade and it was \$ 277 million in 1981, then it showed some increase in 1982 and reached \$ 386 million and finally reached a high level of \$ 2702 million in 1986.

The trade between the two countries has been greatly effected by the political factors. The Sino-Soviet split in 1960 was purely a political and ideological based decision. In the decade that followed and after, the political factors have been dominating the economic relations. With the normalisation of relations towards the late 1970s and early 1980s, the trade began picking up. It continued through out the period 1980-86 with the

exception of the year 1981.

A number of trade agreements have been signed covering wide of trade activities. Earlier the treaties signed between China and the Soviet Union used to be one year trade protocols, now they have been replaced with a long term trade agreement. The first of its kind was signed in 1985 covering the period 1985-90. This is a positive development in the trade relations between the two countries.

The overall trade of China and Soviet Union has also increased substantially. China's trade, when seen with its other main trading partners, it is seen that the trade with Japan, Hongkong and US, as also increasing. Japan is the leading trade partner of China and accounted for 23 per cent share in China's total foreign trade in 1986. Hongkong is the second largest trading partner of China, accounting for more than 22 per cent of share in China's total trade. Soviet Union's share in China's overall trade is only 4 per cent.

China's trade has increased with all its trading partners but the rate of increase has been highest with

the USSR. China's exports to Soviet Union, in the period 1980-86, show the compound growth of 46.66 per cent per annum where as the increase over the same period with other trading partners has been: With Hongkong 12.43 per cent per annum, with Japan 3.84 per cent per annum and with the USA 15.79 per cent annually. The imports from China show the following trend: With USSR 33.16 per cent per annum, with Hongkong 46.22 per cent per annum, Japan 15.82 per cent per annum and with the USA it was 3.54 per cent per annum.

The composition of merchandise has undergone very substantial change. In the beginning of the 1950s, China was the importer of heavy machinery which was set up with the help of Soviets and the basic infrastructure was also provided by the Soviets. Its exports to Soviet Union consisted of raw materials and other traditional items.

In the 1980s the composition of merchandise has undergone a sea-change when compared with that of the 1950s. Now the main exports items of China to USSR are

textiles, light industrial products, cereals, edible oils, foodstuff native products, edible oils and electrical machines. The proportion of China's textile and light industrial export value to the total export value, the exports of electronic products also increased greatly. This indicates that China's export commodities to the USSR have become more intensively processed.

The balance of trade through out this period has been in favour of Soviet Union with the exception of the year 1985 when Soviet Union had a trade deficit of \$ 20 million dollars with China. In 1986 China had a trade deficit of \$ 241 millions with the Soviet Union.

Reopening of border trade between the bordering areas of two countries is a very important development in the trade relations between China and USSR. The border provinces of China, Heilongriang, the Kinjiang Uygur and inner Mongolian autonomous regions are involved in this trade with Kazath, Kirghiz, Jakiz, Turkinen and Uzbek Socialist Republics, the Altai and Kransoyarsk territories and the Meinerono along with Buryat Autonomous Republic and the Inkutsk and Stakalim regions of the USSR. The trade has increased three fold between 1983 and 1986,

and is showing a steady growth since then. The main items of trade are: exports from China's province to USSR consist of raw cotton, spun and woven goods, hops and furs, frozen beef, canned meat, vegetables, sausages, soybeans, groundnuts, textiles, footwear, garments and crockery etc. Imports to China's province are, fertilizers, sodash, cement, window glass, saw timber, firewood, motorcars, motorcycles, motor scooters and mopeds, washing machines vacuum cleaners, frozen fish, agricultural implements and other consumer goods.

PROSPECTS:

The prospects of Sino-Soviet trade will depend upon the economic requirement of each others' goods and the relations of these two countries with their main trading partners. The improved Sino-Soviet political relations will certainly have positive effect as the history tells. These factors are analysed in detail:

In case of China, while the economy attained impressive growth in the early 1980s, the achievement was very costly. The spending spree quickly drained the country's limited financial reserves, creating a budget deficit, a trade imbalance and inflation. The falling oil prices, particularly in 1986 further reduced China's

foreign currency. Chinese economy is hainstrung by the rapid drain of the country's financial resources and the continuous dwindling of its land. Its foreign exchange reserves have been rapidly depleted and currency value has continuously depreciated. The most pressing problem is that of the critical shortages of energy supplies and transport facilities.¹ The rising trade deficit has forced China to restrict its imports also, but the technology imports will continue. To meet the hard currency demand for imports, the volume or export has to be increased significantly. Although, as one economist has put it. 'China's current economic situation is far from alarming', the out look is for further pressures for expanding exports and limiting imports.

When all these developments are considered, China appears to be a potential foreign trade power. In terms of growth of total trade, the composition of the trade and the involvement with the world capitalist economy, China is developing a trade dynamism.

1. The analysis is given by John Stuermer, 'The Foreign Exchange Situation', China Business Review, Jan-Feb., 1986.

The goals set for foreign trade over the next five years seem attainable. According to the plan, Chinese trade will grow at an annual average rate of 7 per cent, attaining a two way total of \$ 83 billion. Authorities have set export targets higher than import targets: exports are expected to grow at 8.1 per cent, imports only 6.1 per cent. Plan suggests that the trade will simply keep pace with the growth planned for in other sectors. Overall, trade will grow by 40 per cent over the five years, the total output for agriculture and industry will grow by 38 per cent, and G.N.P., according to the plan, will increase by 44 per cent. With the base and the growth rates given in the plan, Chinese trade will run annual deficits of \$ 7 billion over the next five years; the cumulative five year deficit, would reach over \$ 36 billion. A straight line projection shows that Chinese trade would not come into come into balances until 1999.

The uncertainties continued in the plan hardly help the Chinese case for improved trade relations. continuing foreign exchange crunch means that the Chinese will remain selective in their imports and will

pressure foreign partners for exports, investment and market development. The stress will stay on infrastructural development: energy, transport, basic industries, technology transfer.

The Soviet economy is going through a lean phase growth rates have been falling as a whole in the long favoured industrial sector. The overall productivity of resources used in the economy has declined markedly.

About 60 per cent of Soviet Union's hard currency earnings come from crude oil and another 20 per cent is derived from export of gas and other energy items. With reduced oil prices in 1986 and 1987, Soviet Union suffered losses in the foreign exchange earnings. It had to cut its imports from the west. Nevertheless, the trade deficit with industrial countries amounted to \$ 3.8 billion in 1986 compared with deficit of \$ 380 million in 1986. Soviet trade position is badly affected because of the terms of trade against it. Most of its exports are commodities such as oil, gas and gold denominated in dollar which has depreciated considerably. The non-dollar purchasing power of these dollar denominated earnings has been significantly reduced by the depreciated dollar.

Some of the problems are common to both, China and the Soviet Union. The quality of their exports, with exception of China's textile and garments exports, is poor. It is difficult for them to compete in the world markets. There have been complaints from the Western importers about the inferior goods from these countries. Prof. Lenonid Abalkim, one of Mr. Gorbachev's economic advisors, has said that precisely one of the major problems with the traditional Soviet economic approach is an excessive concern with the quantative growth, but what is needed to be taken seriously is the proposition that the new, stiff Gospriemka quality control measures are changing the meaning of Soviet growth Statistics.²

The economic constraints on the economies of Soviet Union and China and with the poor prospects for sizeable increases in demand from Western markets can draw some comfort from increased mutual trade. The mutual cooperation is likely to increase for much equipment originally installed under Stalin still remains operational in China, with Peking stressing the cost-efficiency of

2. E.I.U. Vol.1, 1987, USSR.

renovating existing plant rather than building on new freefield sites, Soviet spare parts will be in demand. However, it should be noted that the USSR is an exceptional market with a great potential now, at a time when it appears that the world trade as a whole is unlikely to grow rapidly. With China's exports of textile products to the US, Canada and the countries of EEC, starting to decline sharply due to these countries' import restrictions after accounting for half of its total textile goods exports and registering double digit annual growth from the end of 1970s through the beginning of the 1980s, this is no small consideration. Indeed China's exports of textile goods to the USSR has been increasing steadily.

In terms of certain trade items, the USSR has become an important trading partner for China. It is the largest importer of Chinese soybeans, frozen pork and apples. In strictly economic terms, the increased Sino-Soviet trade would be in the interest of both the countries, for China can buy more capital goods of a certain kind especially transportation, relatively unsophisticated machines and spare parts, which incidently

dominate the imports. China itself could increase exports and even earn surplus by exporting coal light manufactured goods besides agricultural products in the USSR.

The nature of trade agreements being signed between the two countries - a change from one year trade protocol to the long term agreements does certainly improve the environment for better trade prospects.

The economic and technology joint enterprise agreement which calls for an exchange of technology documentation, equipment and technicians, the construction of new factories, is expected to have positive effect on Sino-Soviet trade in this decade.

The border trade agreements and the rapidly increasing border trade as a result of the agreements, is indicative of the process of institutionalization of Sino-Soviet cooperation.³ Such trade - both because of the profits accrued directly and the impetus it imports

3. Sino-Soviet Trade under Gorbachev, Political Science Quarterly, 1986, p.540.

to regional development by stimulating the expansion of transportation facilities - is likely to lead to the growth of a local constituency favouring closer Sino-Soviet relations. The renewal of border crossings by individuals wishing to visit relatives, which has already begun⁴ will accelerate this process.

THE RELATIONS WITH OTHER TRADE PARTNERS:

The changing relations with main trade partners will also have as bearing on Sino-Soviet trade.

The protectionist policies being followed by the western countries towards the exports manufactured goods and textiles from China leaves poor prospects for sizeable demand from Western countries.

The relations between China and Japan are getting from bad to worse in 1987 to 1988. The increasing trade deficit with Japan has been worrying Chinese leaders for quite some time. In 1985, when China's trade deficit

4. Beijing Radio (Russian) December 1985.

with Japan reached to nearly \$ 6 billion (China's overall deficit being \$ 7.6 billion) Chinese authorities reacted to this worsening foreign trade balance by curtailing imports and exports. Deng-Xiaoping was quoted as saying that while China would suffer a deficit in its trade for two years, it certainly would not be able to sustain such a deficit for a third year.⁵

In 1987 again, it was felt by Tokyo as well as Peking that an ugly mood is spreading in the two countries and threatening their relationship. Peking stepped up criticism of Japan's 'economic egoism' maintaining a large trade surplus with China while holding back investment and technology transfer. In fact, the Chinese had already begun diversifying sources of imports away from Japan in 1986. They now warn that political problems could further slow purchases from Japan, and reports may some Chinese units have been instructed to 'buy Japanese last'.⁶

5. Lobert Thompson, 'Deng gives Japan Tough Warning on Need to Balance Trade', Financial Times(London) Dec. 4, 1985, p.4.

6. A clash of Nationalisms, Far Eastern-Economic Review, October 1987, p.38.

Most recently, Chinese analysts and policy makers have been preoccupied with the obvious decline of US power and the possible rise of Japan as a world political military power, which many of them see as dangerous but inevitable. Some recent Chinese writings express a desire to keep Japan as merely a regional economic player - a desire which Japanese feel reflects both a genuine fear of Japan's other potentials and China's own great power ambitions.

The Japanese know that China now approves of the US-Japan security treaty, not as a bulwark against the Soviet threat but as a constraint on Japan.

The anti-hegemony diplomacy replaced by a new, "Diplomacy of interdependence" has helped reduce Sino-Soviet tension and allowed China to evaluate each bilateral issue with countries such as Japan on its merits and not according to whether it is a friend or foe. Japanese analysts feel, such a stance may be a result of improved Sino-Soviet relations.⁷

7. Far Eastern Economic Review October 1987, p.40

The events in China increasingly point towards the ascendancy of economies over politics.⁸ Zhou Enlai stated repeatedly, 'nobody can stop the tide of history'. The Sino-Soviet relations, which have been very good in the 1970s have been undergoing a change. The political factors of US protectionism towards China's textile exports. In order to facilitate huge imports of advanced technology from the West, China has to increase its exports, in substantially. Of late, textiles has become China's leading exports item. The restriction for its exports is the US market has forced China to find the market for its exports and the Soviet Union becomes the natural option.

Although, the fact remains that USA's share in China's total trade is far more than that of the Soviet Union and the cultural and social exchanges between China and US are far more than between China and Soviet Union, the alround improvement in the Sino-Soviet economic relations cannot be overlooked.

8. China Today, World Focus, May 1987.

Chinese writers are once again openly portraying the Soviet economic model as a positive model for China. A Chinese paper argues that China's ambition plans to quadruple national income by the year 2000 can be facilitated by studying the Soviet economic model and strengthening Sino-Soviet economic ties.⁹ The article portrays the Soviet Union offering a stable market, comparing favourably with the West's which is plagued by protectionism and lauds the Soviet strategy of 'exchanging natural resources for technology'.

China and Soviet Union have additional advantage of being in a position to engage in barter trade and thus avoid a drain on their respective hard currency reserves. The Soviets offer the advantage of close markets (via border trade) for many Chinese goods, and of over-land transportation to the industrialised portion of Soviet Union and to Europe.

Whatever the future course of trade relations, a significant improvement has already occurred. The economic split began in 1960, has thus now been replaced by a solid and broadening layer of cooperation.

9. William de B. Mills, Gorbachev and Sino-Soviet Relations- Political Science Quarterly, 1986, p.540.

SINO-SOVIET TRADE AND INDIA:

The improving Sino-Soviet economic relations have started a wave of discussions in the various economic, political and academic circles in India. For some time it is a real cause of concern for India's trade with the Soviet Union. As it is, Soviet Union is one of the leading trade partners of India and any change in the direction of trade of Soviet Union will affect India's trade considerably. India's trade with China to negligible and the share of each other in the mutual trade is declining. China's share in India's reports was 0.82 per cent in 1960-61 it has gone down to 0.11 per cent in 1986-87. In imports it was 0.23 per cent in 1960-61 and 0.86 per cent in 1986-87. India's share in China's exports was 0.21 per cent in 1960-61 and 0.44 per cent in 1986-87. In imports, India's share was 0.42 per cent in 1960-61 and 0.03 per cent in 1986-87. It is clear that China's trade with any other country will hardly have any impact on India's trade. Whereas, Soviet Union's trade relations with other countries need a closer look to find as to how much does it about trade with India.

The volume of trade in Indo-Soviet trade, will depend to a great extent on the ability of each country to meet the demands of the other. The Soviet Union supplies India with air-communication facilities, special trucks, machine tools, forging equipment, diesel generators, geological prospecting and drilling equipment, walking excavators, rolling and metallurgical equipments. India exports tea, coffee, tobacco, handicrafts, cotton fabrics, knitwear, readymade garments, dyes, medical preparations chemicals, power-cables, steelwire, garage equipment, storage batteries, sea containers etc. In 1986 the balance of payments was in favour of USSR and the balance of trade was in favour of India.

China's exports to the USSR are identical with India's exports to USSR. China and India both have reached that level of development where their nature of foreign trade has become competitive rather than complementary. China is posing as a competition for India in trade and is dearly outpacking India in exports. Starting from items like cotton garments, which was India's forte, China with a diversified export structure has overtaken India performing better in the US and the other European community

market.

In case of certain commodities, India has recently suffered at the hands of China, by its reduced share of exports to the Soviet Union. Tea, cotton textiles and readymade garments are the main items facing stiff competition from China in their exports to the Soviet Union.

In 1985 the USSR imported a little over 108 thousand tons of tea worth nearly 235 thousand roubles of which 77 per cent was from India. However, this has been shaken due to the stiff competition from the Chinese tea.

Whereas the annual average rate of decline in India's share in the Soviet tea market was 3.1 per cent during the period 1981-85, the annual average rate of growth in the Chinese share was an astounding 228.5 per cent. From 1984 to 1985 alone the Chinese exports rose from 3000 tons to over 20,000 tons. Thus it appears that whereas India tea has been losing ground in hard currency region due to the competition from African

countries and Srilanka, it is facing a similar threat in the rupee regions from the Chinese tea.

The superior quality of Chinese cotton textile and readymade garments exports have also been grabbed some of India's share in the USSR. Wool and woollen apparel readymade garments and footwear which have regular markets in USSR, may also be affected as China is very strong contender in these items.

India exports 15.7 per cent of its exports to the USSR and increasing it at the rate of 15.03 per cent every year of which tea, jute and jute manufactures, cotton fabrics, woven articles of apparel and clothing constitute about 51.67 per cent of the total exports. These items are the hot commodities of China. The labour which the Soviet Union needs for its Siberian projects will also be fought for by China and India.

There is a point of solace also. First USSR may increase its total imports to adjust the increased imports from China. Secondly, of India's total exports of late, the share of manufactured goods is improving

very fast and has become 30 per cent of the total exports to the USSR. In this field, India is unlikely to be beaten unless the USSR makes extra concessions to China.

The extent to which India will be affected by the increasing Sino-Soviet trade, depends upon Soviet Union's capacity to increase the volume of its imports in order to adjust increasing Chinese exports and maintain the existing level of India's exports to Soviet Union. How far Soviet Union is able to expand its imports, only future will tell. The signs have already developed for a stiff competition for India's exports to Soviet Union.

APPENDIX

CHINA'S EXPORTS IN MILLION US DOLLARS

	1980	1981	1982	1983	1984	1985	1986
U.S.	983 (5.43)	1505 (7.01)	1765 (8.07)	1713 (7.72)	2313 (9.31)	2336 (8.55)	2633 (8.75)
Japan	4032 (22.28)	4747 (22.11)	4806 (21.97)	4517 (20.37)	5155 (20.76)	6091 (22.29)	4742 (15.77)
W. Germany	711 (3.93)	835 (3.89)	773 (3.54)	859 (3.87)	764 (3.08)	746 (2.73)	1011 (3.36)
USSR	228 (1.26)	123 (0.57)	143 (0.65)	319 (1.44)	585 (2.35)	1037 (3.79)	1230 (4.09)
Hongkong	4353 (24.05)	5263 (24.52)	5181 (23.69)	5797 (26.14)	6586 (26.52)	7148 (26.16)	9776 (32.50)

Source: Direction of Trade Statistics Year Book 1987.

Note: Figure in brackets show the percentage share.

APPENDIX

CHINA'S IMPORTS

	1980	1981	1982	1983	1984	1985	1986
USSR	264 (1.32)	154 (0.71)	243 (1.29)	441 (2.07)	670 (2.58)	1017 (2.39)	1472 (3.39)
US	3830 (19.21)	4682 (21.64)	4305 (22.78)	2753 (12.90)	3837 (14.79)	5199 (12.22)	4718 (10.87)
W. Germany	1333 (6.68)	1337 (6.18)	967 (5.12)	1209 (5.67)	1259 (4.85)	2447 (5.75)	3627 (8.36)
Japan	5164 (25.90)	6183 (28.58)	3902 (20.64)	5495 (25.75)	8057 (31.05)	15178 (35.69)	12463 (20.71)
HONGKONG	570 (2.86)	1236 (5.71)	1314 (6.95)	1710 (8.01)	2830 (10.90)	4762 (11.20)	5572 (12.83)

Source: Direction of Trade Statistics Year Book 1987.

Note: Figure in brackets show the percentage share.

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