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China and the US Trade Embargo, 1950-1972

Xin-zhu J. Chen*

ABSTRACT

When China intervened in the Korean War in late 1950, the U.S. retaliated by imposing a total trade embargo. Although the UN followed suit, the sanction was lifted when the war ended. Single-handedly, however, the U.S. carried out the embargo until 1972. In the Shanghai Communiqué Washington and Beijing agreed to resume the bilateral trade.

With the aid of statistics, this article argues that both China's GDP and foreign trade expanded steadily and impressively in spite of the U.S. trade embargo. About the only positive thing it accomplished was that it fostered the Sino-Soviet split. China learned a valuable lesson. That sharing the same ideology does not guarantee unconditional support. In the end, China was able to manipulate discords between the U.S., its European allies and Japan, from which Beijing acquired practically everything the U.S. wanted to deny to it. By diversifying its trading partners, China marginalized its trade with the Soviet Union and reduced its economic dependence on Moscow. Likewise, by developing trade with America's allies, China rendered completely ineffective the embargo that was designed to curtail China's economic growth.

The Korean War broke out in June 1950 and China intervened late that year. In retaliation, the United States imposed a total trade embargo on Beijing. Following the lead of the United States, the United Nations sanctioned a collective embargo in May 1951. The UN trade sanctions were lifted at the end of the Korean War, yet the United States unilaterally maintained its embargo until 1972. In the Shanghai Communiqué President Nixon and Premier Zhou Enlai agreed "to facilitate the progressive development of trade between their two countries." Bilateral trade resumed.

This article describes how eagerly the Communist regime in China wished to reestablish trade with the United States to help

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rebuild its economy during the formative years of the People's Republic. It also recounts how, before the outbreak of the Korean War, some influential leaders in the United States advocated using trade as a 'carrot' to lure China away from the Soviet Union. This article argues that one unexpected result of the U.S. trade embargo was that it fostered the split between Beijing and Moscow. Beijing asserted its independence by rapidly marginalizing its trade with Moscow. Finally, the article explains how, in the end, Beijing was able to exploit the discord between the United States and its allies, forcing Washington to seek the resumption of bilateral trade.

The Decision for Trade Embargo

In 1950 China faced the daunting task of rebuilding an economy that lay in ruins after the eight years of the war of resistance against Japan, followed by four more years of civil war against the US-supported Chinese Nationalists. Yet Chinese Communist leaders appeared to realize that if there was any country in the world that could help China to rebuild, it would have to be the United States, which then possessed almost one half of the world's wealth and all the necessary technology. There is evidence that even before the People's Republic of China (PRC) was proclaimed, Chinese Communist Party (CCP) leaders had made several overtures to engage in trade with the United States.¹ A statement attributed to General Chen Yi, then the mayor of Shanghai and soon to be the foreign minister, clearly indicated how eagerly China's Communist leaders wanted to establish trade with the United States:

Other Communist countries, including the Soviet Union, were too preoccupied with their own construction programs to help China with enough of the technical material needed for long-term industrialization on a large scale. Any foreign nation, including the United States and Britain, would be welcome to offer aid, provided it was offered on the basis of sovereign equality.²

In the United States, however, opinions were divided. Shocked by "the loss of China" and fearful that the Sino-Soviet alliance could pose a serious threat to the security of the United States,

1 For more details regarding the Chinese desire to establish trade relations with the United States, see, Tucker, Nancy B., *Patterns in the Dust*, New York: Columbia University Press, 1983, 47-48.

2 Cited by Gitting, John, *The World and China, 1922-1972* (New York: Harper & Row, 1974), 170.

most Americans favored a strict trade embargo to punish China. Some even hoped that by further retarding China's war-ravaged economy, the trade embargo might bring about the collapse of the Communist regime. But an influential minority, consisting primarily of business leaders, leading journals, and scholars argued that the United States should use the promise of trade and economic aid to encourage the development of a healthy Chinese nationalism and to lure Beijing away from Moscow's orbit.³

To be sure, the enthusiastic support of U.S. business leaders for resumption of trade with China was not purely altruistic. They knew that the war-torn nation was in great need of material, technology, and services for reconstruction. They also knew that there would be no foreign competition in China; their prewar rival Japan had been defeated and was under the American Occupation, and European merchants had their own problems at home. American business thus saw for themselves a commercial monopoly in post-war China.

While the Truman Administration remained officially undecided, it quietly prepared to try the trade option. Secretary of State Dean Acheson convened a conference at the State Department on October 6-8, 1949, just about a week after the PRC was proclaimed. Attended by 24 leading scholars, academics, and business leaders, the conference recommended that the United States "ought to recognize the Chinese Communist government, establish trade relations with Red China, and withdraw recognition from the Nationalist Government."⁴ As if to follow the recommendation, the State Department notified all its overseas posts on January 3, 1950 that "fall of Taiwan to the Communists was to be expected and the public should be told that the island meant little to U.S. security."⁵

Another sign that Truman hoped to use trade as an enticement was that he never imposed a total ban on trade with China even

3 The desire to establish commercial and diplomatic relations with new regime in China was particularly strong among firms and labor unions in the West coast, where the economy depended heavily upon trade with the Orient. "Coast will trade with Red China," read a *New York Times* headline on February 10, 1949. *The Wall Street Journal* (December 1, 1949) urged the Truman Administration to recognize the "reality of China," while *Business Week* (February 4, 1950) asserted that the United States should use trade and recognition as bargaining chips to induce Mao Zedong to shun Stalin.

4 *China and U.S. Far East Policy, 1945-1966*, (Washington, D.C.: Congressional Quarterly, 1967), 47.

5 *China and U.S. Far East Policy, 1945-1966*, 48.

after the PRC was formally proclaimed. Although the United States maintained tight control over the export of strategic materials, it allowed the exports of non-strategic materials to continue. According to a Chinese source, China in 1950 exported to the United States \$142.63 million worth of merchandises (17% of China's total exports) and imported from the United States goods worth \$95.49 million (25% of China's total imports).⁶ If trade in non-strategic goods had continued without interruption, it would have generated considerable momentum, providing both countries with economic benefits. Improved economic circumstances, in turn, would have mitigated hostilities and improved political relations between the two countries.

In short, as late as the first half of 1950 both China and some influential leaders in the United States found themselves sharing a hope in common for resumption of informal trade, each with a different goal in mind: China wished to rebuild its economy whereas the United States hoped to separate China from the Soviet Union. The hope quickly dissipated with the outbreak of war in Korea.

Impacts on China's Domestic Economic Development, 1950-59

Did the trade embargo retard China's economic development and thus reduce her ability to wage war in Korea? One simple way to determine if the trade embargo adversely affected China's economic development is to look into its GNP/GDP growth from 1950 to 1959. The latter year (1959) is used as the cut-off because it was in that year West Europe and Japan resumed trade with China in earnest, rendering the trade embargo all but a formal pretense. Table I provides China's GNP/GDP and annual growth rate.

These statistics carry a caveat, however. Prior to 1979 Americans had no direct access to Chinese data. Table I, therefore, is necessarily a patchwork of the estimates made by experts on the economy of China during the early years of the Communist regime. The figures listed under Column A (GDP) consist of estimates by William W. Hollister and Alexander Eckstein.⁷ The figures are in billions of Chinese yuan when the exchange rate was

6 *Almanac of China's Foreign Economic Relations and Trade, 1984*, (Hong Kong: China Resources Trade consultancy Co.), 1984

7 Hollister, William W., *China's Gross National Product and Social Accounts, 1950-1957*, (Glencoe, Illinois: The Free Press, 1958); Eckstein, Alexander, *Communist China's Economic Growth and Foreign Trade*, (New York: McGraw-Hill, 1966).

2.36 yuan to 1 U.S. dollar. Under Column B (GNP) are estimates developed by the CIA and cited by Chu-yuan Cheng.⁸ These figures are in billions of the 1979 U.S. dollars.

Column C (GDP) contains figures (in billions of the 2002 Chinese yuan) that the Chinese government released in 2003.⁹ The exchange rate was then 8.6 Chinese yuan to 1 U.S. dollar. Three sets of statistics are provided to show that while discrepancies exist among the three sets, all three show *a similar trend* in annual percentage change in any given period. It should also be pointed out that Table I does not distinguish between GNP and GDP. As China before 1979 was a closed country with no discernible foreign investment or investment abroad, her GNP and GDP may be considered identical.

According to Table I, the Chinese economy made impressive gains during the so-called period of rehabilitation (1950-52), notwithstanding the trade embargo and the economic strains of the Korean War. Column A shows that the economy grew at 14.2% between 1950 and 1951 and 20.1% between 1951 and 1952. Column B also shows a rapid growth rate: 16.7% and 18.7% during the same periods. The Chinese government, as shown in Column C, did not have data for these two years. It is doubtful that Beijing even had a nationwide data-collecting system at this early time.

Such a fast rate of growth, of course, was possible only because the 1950 figure representing the war-ravaged economy was very low. The return of Soviet-held properties in Manchuria and a loan from the Soviets worth \$300 million also helped to sustain the growth rate. Beijing's success in reigning in rampant inflation, repairing the badly-damaged transportation system, rehabilitating existing factories, and initiating a number of large-scale public works projects also contributed to the rapid growth of the economy. At the end of 1952 China claimed that its output of industrial products had surpassed the pre-World War II peak.¹⁰

So confident, in fact, was Beijing in its success in rehabilitating the economy that in 1953 it announced the First Five-Year Plan (1953-57). The Plan called for rapid development of heavy indus-

8 Cheng, Chu-yuan, *China's Economic Development, Growth and Structural Change*, (Boulder, Colorado: Westview Press, 1982).

9 *China Facts and Figures 2002*, <http://www.china.org.cn/english/shuzi-en/en-shuzi/jj/hm/biao/3-1.htm>.

10 See, Barnett, A. Doak, *Communist China and Asia. Challenge to American Policy*, (New York: Harper & Brothers, 1960), 40.

TABLE I
CHINA'S GNP/GDP AND ANNUAL GROWTH RATE
1950-1959

Year	Column A		Column B		Column C	
	GDP billion yuan	% Change	GNP billion \$	% Change	GDP billion yuan	% Change
1950	55.0	—	78		n.a.	n.a.
1951	62.9	14.2	91	16.7	n.a.	n.a.
1952	75.5	20.1	108	18.7	67.9	—
1953	79.8	5.9	114	5.6	82.4	21.4
1954	84.1	5.3	119	4.4	85.9	4.3
1955	89.2	6.0	131	10.1	91.0	4.8
1956	99.9	12.0	142	8.4	102.8	13.0
1957	103.5	3.6	151	6.3	106.8	3.9
1958	119.0	15.0	179	18.5	130.7	22.4
1959	127.0	6.7	170	-5.0	143.9	10.1

Sources: Column A: Eckstein, Alexander, *Communist China's Economic Growth and Foreign Trade*, New York: McGraw-Hill, 1966, 43, and Holister, William W., *China's Gross National Product and Social Account, 1950-1957*, Glenocoe, Illinois: The Free Press, 1958, 2; Column B: Chu-yuan Cheng, *China's Economic Development, Growth and Structural Change* (Boulder, Colo.: Westview Press, 1982); Column C: *Almanac of China's Foreign Economic Relations and Trade, 1984*, (Hong Kong: China Resources Trade Consultancy Co., 1984).

try, which would create base on which to build national strength, thus allowing China to catch up with the more advanced industrial nations, such as Britain. During those five years, the growth rate dropped to a more realistic level, but China still managed to achieve an average annual growth of 6.6%, 7.0% and 9.45%, according to Columns A, B, and C, respectively. Such growth would rank China among the rapidly growing post war economies, such as the Soviet Union, Germany, France, and Italy; only Japan would surpass it.¹¹ By all three accounts China more than doubled its GNP/GDP between 1950 and 1959 despite the trade embargo and the burden of the Korean War.

A number of factors made this dramatic growth possible: Russian aid (both economic and technical), increasing trade with the Communist bloc nations (reaching a peak in 1959), bountiful harvests in 1955 and 1956, and mobilization of under-utilized resources for economic growth. It should also be noted that with the cease-fire in Korea in 1953, most U.N. members that had estab-

11 See, Eckstein, *Communist China's Economic Growth and Foreign Trade*, 46

lished trade sanctions began relaxing their restrictions, allowing China to import industrial materials, technology, and foodstuffs from Western European countries, Japan, Canada, and Australia. By 1959, all of them were freely trading with China, leaving the United States as the only country still banning all trade.

Impacts on China's Foreign Trade

The trade embargo failed not only to slow China's domestic economic development but also to curtail its foreign trade. Table II shows that even when the rigid embargo was enforced during the Korean War, China's exports nearly doubled, from \$552 million in 1950 to \$1.022 billion in 1953. Likewise, imports more than doubled from \$583 million to \$1.346 billion. After the Korean War, both exports and imports continued to grow, and in 1955 the combined value of exports and imports surpassed the pre-World War II peak of 1928-29, attained only when the tariff autonomy was restored to China (under the Nationalist rule).¹²

On the other hand, Table II also shows that China suffered a huge trade deficit during and immediately after the Korean War. Beginning in 1950, for six consecutive years, China incurred an annual deficit averaging roughly \$300 million. Although considered as absolutely necessary to finance the war in Korea, the large deficit was an enormous burden for a country with millions of poverty-stricken people and no foreign reserves. To rectify the situation, China in 1956 adopted the policy of the so-called "self-reliance," meaning that it deliberately reduced imports to below the level of exports. Thus, from 1956 onward and throughout most of the 1960s, we see a continuous trade surplus, artificially induced. Even such small surpluses helped fill the gap left by a succession of poor harvests in the disastrous wake of the Great Leap Forward.

Table II also reveals that after reaching its peak in 1959, China's foreign trade began to decline, maintaining the annual level of approximately three billion dollars during the first half of the 1960s. Although foreign trade rebounded to the 1959 level in 1966, it declined again until 1970-71, stagnating at the average annual level of around four billion dollars. What caused the foreign trade to stagnate? We can safely rule out the trade embargo as a factor, because

¹² For details, see, Eckstein, *Communist China's Economic Growth and Foreign Trade*, 94, 319n. 7.

TABLE II
CHINA'S FOREIGN TRADE, 1950-1972
(IN MILLION OF U.S. DOLLARS)

<i>Year</i>	<i>Total</i>	<i>Exports</i>	<i>Imports</i>	<i>Balance</i>	<i>Important Events</i>
1950	1,135	552	583	-31	Alliance with Russia
1951	1,955	757	1,198	-441	
1952	1,941	823	1,118	-295	
1953	2,368	1,022	1,346	-324	
1954	2,433	1,146	1,287	-141	Korean War ends.
1955	3,145	1,412	1,733	-321	
1956	3,208	1,645	1,563	82	
1957	3,103	1,597	1,506	91	
1958	3,871	1,981	1,890	91	Great Leap Begins.
1959	4,381	2,261	2,120	141	
1960	3,809	1,856	1,953	-97	Sino-Soviet split
1961	2,936	1,491	1,445	46	
1962	2,663	1,490	1,173	317	
1963	2,915	1,649	1,266	383	
1964	3,463	1,916	1,547	369	
1965	4,245	2,228	2,017	211	
1966	4,614	2,366	2,248	118	Cultural Revolution
1967	4,155	2,135	2,020	115	
1968	4,048	2,103	1,949	154	
1969	4,029	2,204	1,825	379	
1970	4,586	2,260	2,326	-66	
1971	4,841	2,636	2,205	431	
1972	6,301	3,443	2,858	585	Nixon visits China.

Source: *Almanac of China's Foreign Economic Relations and Trade, 1984* (Hong Kong: China Resources Trade Consultancy Co.), 1984

by this time America's allies were freely trading with China. If China wished to expand trade she could have done so without difficulty. What was responsible for the slowdown, beyond the after-effect of the Great Leap Forward, was the sudden withdrawal of Russian technicians in 1960, an act that left standing in an unfinished state a number of complete plant projects that Beijing had purchased from Moscow. Faced with this debacle, China resolved never again to become dependent upon any single foreign country. The nation redoubled its effort to restrict imports, especially from the Soviet Union, to the level of exports. But this was no easy task as the break with the Soviet Union reduced China's industrial production, dragging down with it the nation's export capacity. It is worth noting that those hard-earned trade surpluses accumu-

lated during the first half of the 1960s helped China pay off all its debts to the Soviet Union.

Trade stagnation during the second half of the 1960s was caused in part by the political and social chaos engendered by the Cultural Revolution and in part by renewed tension with the Soviet Union. A skirmish over the control of a tiny island in the middle of Ussuri River in early 1969 developed into a series of potentially dangerous armed clashes, with both sides amassing troops in preparation for a full-scale war. Later that year, a new border conflict flared up in Xinjiang on China's most western border with the Soviet Union. Moscow repeatedly threatened to carry out preemptive strikes against China's nuclear facilities. The Chinese government ordered its people to evacuate from border regions and residents of major cities were mobilized to dig underground shelters for possible aerial and even nuclear attacks. The heightened tension with the Soviet Union stiffened the resolve of Chinese leaders to adhere to the policy of self-reliance. Table II shows China registered trade surplus every year from 1966 to 1972, excluding 1970. For China during those years, it was important to remain free of debt, even at the cost of a sluggish foreign trade.

It was in the aftermath of such open conflicts between China and the Soviet Union that President Richard Nixon arrived in Beijing in 1972. The Shanghai Communiqué enabled Beijing to claim that Soviet Union's Cold War archenemy, the United States, was now a friend of China. But more importantly, from China's foreign trade vantage point, the resultant lifting of the U.S. trade embargo appeared to have convinced the Chinese leaders of the need for amending the self-reliance policy. They must have reasoned that since China had to modernize its industry quickly to strengthen its national defense, the country needed to import heavy industrial equipment in quantity (primarily in the form of whole plant) without regard to the balance-of-payments equilibrium. Such a change in China's policy is clearly reflected in trade statistics.

According to Table III, one year after Nixon's historic visit, China's foreign trade level rose sharply to \$10.976 billion from the 1972 level of \$6.301 billion, a phenomenal 74% increase. In 1974, another increase of 33% was recorded. Moreover, China registered trade deficits five out of the eight years from 1973 to 1980, a remarkable turnaround compared with the 1960s. Amazingly, the deficit in three of those years exceeded one billion dollars, by far

the largest deficit ever incurred by the PRC in the 30 years of its history. It is truly ironic that the trade embargo, which had been so ineffective in retarding China's foreign trade, was so effective in stimulating its rapid growth when it was finally lifted!

TABLE III
CHINA'S FOREIGN TRADE, 1972-1980
(IN MILLION OF U.S. DOLLARS)

Year	Total	Exports	Imports	Balance
1972	6,301	3,443	2,858	585
1973	10,976	5,819	5,157	662
1974	14,568	6,949	7,619	-670
1975	14,750	7,264	7,486	-222
1976	13,433	6,855	6,578	277
1977	14,804	7,590	7,214	376
1978	20,638	9,745	10,893	-1,148
1979	29,333	13,658	15,675	-2,017
1980	37,822	18,272	19,550	-1,278

Source: Same as Table II

Diversification of Trading Partners

The trade embargo did force China to change its trading practices in a very significant way. Prior to 1949 China's trade with the Soviet Union was negligible and its trade with the Communist countries of East Europe was even more insignificant. In 1950, however, the pattern changed dramatically. In that year, as shown in Table IV, China's exports to the Soviet Union occupied 28% of her total exports. In 1951 Chinese exports to the Soviet Union rose to 41%, with additional 20% going to East European countries. In the peak year of 1959, the Soviets' share of China's exports was 49% and East Europe's, 17%, a combined share of 66%. China was equally dependent on the Soviet bloc for imports. In 1950, 32 % of its total imports were from the Soviet Union; in 1955 the figure rose to 65%, with an additional 13% coming from Eastern Europe. Although Soviets' share declined to 43% in 1960, the figure for the same year from Eastern Europe rose to 16%, the combined share of the Soviet Union and its East European allies still accounted for 59% of China's total imports. In short, from 1950 to 1960 China conducted close to two-thirds of its foreign trade with the Soviet bloc. As stated earlier, the Soviet Union during this period provided China with an initial loan of \$300 million

TABLE IV
 CHINA'S EXPORT AND IMPORT TO/FROM COMMUNIST COUNTRIES
 1950-1972
 (PERCENTAGE OF CHINA'S TOTAL TRADE)

Year	Soviet Union		East Europe ^a		Asian Communist Countries ^b		Total ^c	
	EX	IM	EX	IM	EX	IM	EX	IM
1950	28	32	3	1	1	0	32	33
1951	41	42	20	4	2	0	64	46
1952	50	58	18	14	3	0	71	73
1953	47	58	18	12	5	0	70	70
1954	51	55	17	20	8	0	77	75
1955	47	65	17	13	8	0	73	78
1956	46	49	15	18	7	1	68	68
1957	47	41	16	19	7	2	70	62
1958	45	34	16	21	6	3	68	58
1959	49	46	17	16	7	3	73	65
1960	44	43	16	16	9	4	69	63
1961	36	20	9	13	11	5	56	39
1962	33	18	10	7	10	6	53	32
1963	25	15	10	5	9	7	43	27
1964	16	9	8	5	8	6	33	19
1965	10	9	8	6	10	6	28	21
1966	6	7	7	7	11	5	24	19
1967	3	3	7	7	10	4	20	14
1968	2	3	9	8	11	3	21	14
1969	1	1	10	7	9	3	20	11
1970	1	1	12	7	8	3	21	11
1971	3	3	10	11	12	4	25	18
1972	4	4	9	11	11	4	23	19

a. Eastern Europe includes Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania, and Yugoslavia

b. Asian Communist countries include North Korea, Vietnam, and Mongolia

c. A discrepancy of one percentage is due to rounding up.

to enable Beijing (with zero foreign reserves) to buy arms and ammunitions to fight the war in Korea. Moreover, during the First Five Year Plan, Moscow extended credits estimated to be at least \$1.4 billion,¹³ with which China was able to import heavy industrial equipment and buy numerous whole industrial plants from the Soviet bloc. The Soviet Union and its East European Communist al-

13 Eckstein, *Communist China's Economic Growth and Foreign Trade*, 237

lies also sent tens of thousands of engineers and technicians to help China run those imported factories. Thus, by denying access to the West for what she needed desperately, the trade embargo forced China to turn to her fellow Communist countries. Instead of weakening China economically, as the trade embargo was designed to do, it thrust China deep into the arms of the Soviet Union. Nevertheless, the trade embargo accomplished one goal, albeit unwittingly, which is beneficial to the United States: It drove a wedge between Beijing and Moscow. It forced the Soviet Union, which was itself recovering from the devastation of World War II, to carry the heavy burden of supporting China, a highly nationalistic country needing enormous inputs for industrialization.¹⁴ We do not know the specific reason why the Soviet Union abruptly withdrew its technicians from China in 1960. Economic burdens and conflicting ideologies undoubtedly were factors behind the decision. Moreover, the trade embargo made China realize how dangerous it is to rely on the support of a single country for all its needs. Beijing learned the lesson that sharing the same revolutionary ideology was no guarantee for unlimited support. The policy of self-reliance and the diversification of trade partners were natural results of the distrust and ill-feelings China began to harbor toward the Soviet Union. These ill-feelings erupted into open hostility over a series of border disputes in 1969, giving the United States an opportunity to capitalize upon the break between the two Communist rivals.

Going back to Table IV, we notice that China's export to and import from the Soviet Union represented 44% and 43%, respectively, of her total export and import in the year when the Soviet technicians were withdrawn. Both figures dropped steadily every year afterward; by 1965 China's exports to the Soviet Union was only 10% and import 9% of the total in each category. By 1969 the figures for both categories had shrunk further, to a mere 1%. Although China's trade with Eastern European countries during the same period was also reduced, it did not decline as precipitously as

14 The potential discord between Moscow and Beijing was also cited by Professor J.L. Gaddis as a reason for the Eisenhower Administration's strong support of Chiang Kai-shek's Nationalist China on Taiwan during the Quemoy-Matsu Crises of 1956 and 1958. Gaddis called Eisenhower's policy "a calculated effort to split a hostile alliance by exhausting its junior partner, forcing it to make demands its senior ally could not meet." Gaddis, however, made no reference to the U.S. trade embargo and its impacts on the Sino-Soviet alliance. See, John Lewis Gaddis, *Strategies of Containment*, (New York: Oxford University Press, 1982), 194

did its trade with the Soviet Union. Obviously, China was making a conscious effort to reduce its dependence on the Soviet bloc.

Table IV also shows that China gradually expanded its trade with its Communist neighbors in Asia: North Korea, Vietnam, and Outer Mongolia. Prior to 1959, China's trade with these countries was negligible; but beginning in 1960 this trade expanded rapidly. In 1966, for example, the share of China's exports to its Communist trading partners in Asia reached 11% (\$255 million) and the import share registered 5% (\$103 million) of the total exports and imports respectively. Equally significant is the fact that in its trade with these countries, China annually achieved a trade surplus (an annual average in excess of \$100 million between 1960 and 1970), a valuable gain with which to maintain the trade balance as required by the policy of self-reliance.

In addition to reaching out to other Communist nations, China also made overtures to America's capitalist allies. Table V lists the percentage of China's total exports to and imports from America's major capitalist allies between 1950 and 1972. These allies include Japan, Western Europe (Britain, West Germany, France, and Italy), Canada, and Australia. With the exception of 1950 and 1972 the United States had no commercial interchange with China exceeding one million dollars in value.

In 1950, the last year before the UN-sanctioned trade embargo took effect, China exported to America's capitalist allies 14% of its total exports and imported from them 15% of total imports. In 1951, however, both exports and imports dropped sharply to 4% and 5% respectively. Clearly the trade embargo was working. Nevertheless, it should be pointed out that, unlike the United States, Western European nations never completely stopped trading with China during the Korean War. In fact, they resumed trading with China in earnest as soon as the Korean War ended. In 1959 when China's foreign trade reached its peak before Beijing's break with Moscow, Western Europe captured 6% of China's export market and 14% of its import market. Western Europe's share of the Chinese market kept increasing each year until it reached its peak in 1970. In that year, its share of China's exports was 13% while its share of imports was an impressive 32%! China's desire to reduce her dependence on the Communist bloc was no doubt a factor that enabled West Europe to become China's favorite trade partner. The trade embargo, which kept the United States from

TABLE V
 CHINA'S EXPORT AND IMPORT TO/FROM MAJOR CAPITALIST
 COUNTRIES OTHER THAN THE UNITED STATES
 1950-1972
 (PERCENTAGE OF CHINA'S TOTAL TRADE)

Year	Japan		West Europe		Canada and Australia		Total	
	EX	IM	EX	IM	EX	IM	EX	IM
1950	4	4	10	10	1	1	14	15
1951	0	1	3	3	0	0	3	5
1952	0	0	2	2	0	0	3	2
1953	1	0	4	9	0	0	5	9
1954	2	1	4	6	0	0	6	7
1955	4	1	4	5	0	0	9	7
1956	4	4	5	7	0	1	10	12
1957	4	5	4	9	0	1	9	14
1958	2	3	7	18	0	2	9	22
1959	n.a.	n.a.	6	14	0	2	7	16
1960	n.a.	n.a.	7	14	0	2	7	16
1961	1	1	6	10	0	25	8	36
1962	2	4	7	13	1	22	10	39
1963	4	5	8	12	1	28	13	46
1964	7	10	10	11	1	22	19	44
1965	9	13	12	16	2	17	22	46
1966	11	15	13	23	2	15	26	53
1967	11	15	13	29	2	17	27	61
1968	10	17	13	30	2	15	25	62
1969	9	21	14	32	3	12	26	65
1970	10	25	13	32	2	11	25	69
1971	11	27	12	22	2	10	25	59
1972	12	22	11	20	3	12	26	54

Note: A discrepancy of one percentage in the total is due to rounding up. West Europe includes Britain, West Germany, France, and Italy.

Source: *Almanac of China's Foreign Economic Relations and Trade, 1984* (Hong Kong: China Resources Trade Consultancy Co., 1984)

competing in the Chinese market, was no doubt another important factor.

Japan, whose economic recovery greatly benefited from the Korean War, was under the American Occupation during the initial two years of the war. Although there were some commercial interchanges between China and Japan in the second half of the 1950s, the volume was minimal. In the 1960s, however, Japan expanded its China trade rapidly, taking full advantage of geographic

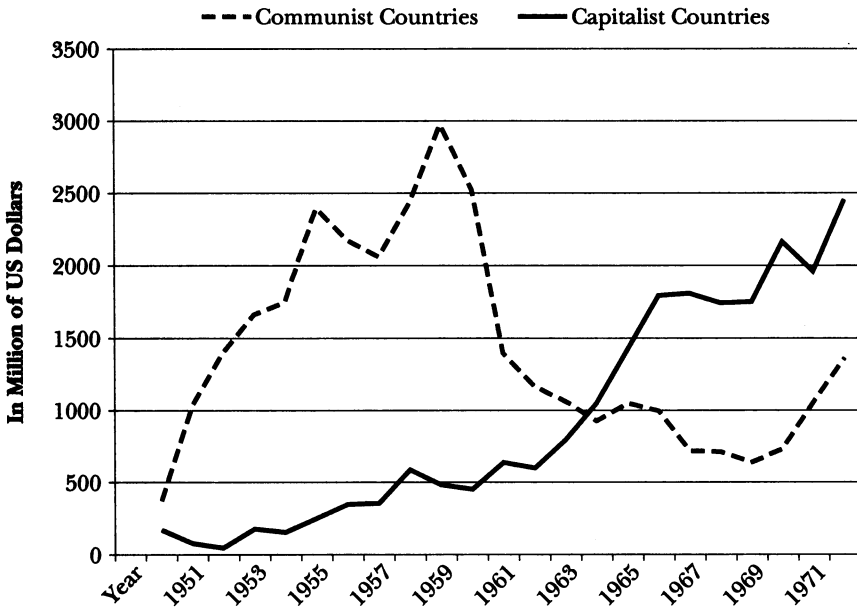
proximity and cultural affinity. In the ten-year period ending in 1970, Japan's share of China's total exports increased from 1% to 10% and its share of imports skyrocketed from 1% to 25%.

In 1961 the acute shortage of food in the aftermath of the disastrous Great Leap Forward forced China to import a large quantity of grains from Canada and Australia. In that year the two countries sold China wheat and corn, worth a combined value of \$356 million or 25% of China's total imports. Ever since, Canada and Australia had become China's chief suppliers of wheat and corn, to the exclusion of U.S. grain farmers. From 1961 to 1970, Canada and Australia together had an average annual share of approximately one-fifth of China's imports.

In summary, China was quite successful in diversifying its trading partners. By 1964, only four years after the break from the Soviet Union, the combined value of China's trade with capitalist countries (\$1.052 billion) had for the first time exceeded the combined value of China's trade with Communist countries (\$927 million), as shown in the chart on the next page. By 1970, two years before Nixon's arrival, China's total trade with capitalist countries (\$2.164 billion) was three times the value of its trade with former Communist allies (\$734 million).

If we separate imports from exports, China's success in diversifying its trading partners becomes even more pronounced. In 1970 China imported 25% of its total imports from Japan, 32% from Western Europe, and 11% from Canada and Australia, a combined total of 69%! An additional 7% came from Eastern Europe and 3% from Asian Communist countries (See, Tables IV & V). In that same year China exported 10% of its total exports to Japan, 13% to Western Europe, and 2% to Canada and Australia, 12% to Eastern Europe, and 8% to Asian Communist countries. The Soviet Union's share of the China's trade was reduced to 1% in both imports and exports, see Tables IV and V.

CHINA'S TRADE WITH COMMUNIST AND CAPITALIST COUNTRIES,
1950-1970



CONCLUSIONS

Through the analysis of various statistics related to China's economy, this brief paper has examined the impact that the U.S. trade embargo may have had on China's economic growth and foreign trade. From this, three conclusions can be drawn.

First, the trade embargo was completely ineffective in slowing China's economic growth. Even during the Korean War when America's European allies were cooperating to enforce the embargo, China's GNP/GDP grew at a pace faster than those of most other countries in the immediate post World War II period. The fast pace of growth enabled China to claim in 1952 that its industrial products had surpassed the pre-World War II peak. The support of the Soviet Union and its East European satellite states in extending loans, credits, and technical assistance helped China overcome the potentially negative impacts of the trade embargo. Nevertheless, considering the fact that China had just gone through eight years of war against Japan and four more years of civil war, it was a remarkable achievement for the still feeble People's Republic.

The trade embargo was just as ineffective in curtailing China's foreign trade. The lesson the United States learned is that a collective embargo must be truly *collective* to be effective. America's allies in Western Europe, however, did not support the embargo after the war. For them, China was important primarily for commercial reasons. Far removed from East Asia, they did not share with the United States the sense of threat from Communism in a distant land. Their eagerness to trade with China, in turn, gave Beijing an opportunity to resort to its old trick of playing "one barbarian against another." When Japan joined the foray in 1960, the trade embargo became all but a joke. China could obtain from Western Europe and Japan virtually everything that the United States wanted to deny it. Thus, the trade embargo, which was originally designed to contain China, had turned into an invisible fence to isolate the United States from the China market, much to the chagrin of American merchants. It would not be until the 1980s that the United States regained a meaningful share of the China market long dominated by Western Europe and Japan. Secondly, the trade embargo produced an unexpected result: it hastened the split between Moscow and Beijing. The split transformed the polarized Cold War into a trilateral antagonism.

Initially, the trade embargo forced China "to lean to one side [the side of the Soviet Union]," to use the famous words of Mao Zedong. China's heavy reliance on Moscow instilled in the Soviets the false belief that China could be treated in the same way as the East European satellite states, which readily took orders from the Kremlin.¹⁵ It was highly probable that the sudden withdrawal of the Soviet technicians from China was meant to be a warning to force China into submission. Defiant Beijing, however, responded by diversifying its trade partners. Here again, China was aided by Western Europe and Japan, which were all too willing to ignore America's repeated pleas to continue the embargo. Within ten years after the sign of the Sino-Soviet split first became apparent, China had successfully replaced the Soviet Union with West Europe and Japan as its principal trading partner(s). By 1970 Beijing's trade with Moscow had been reduced to a trickle. China had simultaneously fended off the two super powers of the Cold War,

15 Policy planners in the Truman Administration harbored a similar mistaken notion that the Chinese Communism was but a part of a worldwide monolithic communism, planned, directed, and controlled by the Kremlin. Such a mistaken notion became very apparent after the Chinese intervention in the Korean War.

extricating itself from the shadow of the Soviet Union and foiling the U.S. attempt to isolate China via the trade embargo. It was a remarkable feat.

Thirdly, the lifting of the trade embargo *vis-a-vie* the resumption of U.S.-China bilateral trade ushered China into a pivotal transitional period (1972-1979). In hindsight, one could argue that what China is today (an economic powerhouse whose consumer products are eagerly snapped up by people all over the world) is due to its willingness to undertake several fundamental changes in economic policies during this period. These changes would enable China to ride the crest of economic wave, which began sweeping South Korea, Taiwan, Hong Kong and Singapore in the late 1980s.

One of these important changes occurred when Beijing relaxed and then abandoned its policy of self-sufficiency. China began to import on the basis of its industrial needs rather than how much it could export, and government leaders did not hesitate to incur large trade deficits through the IM/EX Bank. Beijing was learning the lesson of the market-driven economy. Once it learned the benefits of imports, it decided to open up its door to foreigners. Thus came the now famous "Open Door Policy" of Deng Xiaoping in 1978, aimed at encouraging foreign direct investment in China, e.g., the creation of a number of special economic zones. The following year, the United States extended diplomatic recognition to China. Simultaneously, the two countries concluded a commercial treaty, in which Washington granted Beijing the Most-Favored-Nation trade status subject to annual renewal. China thus gained a full access to the world's richest export market.