

INSTITUTE OF CURRENT WORLD AFFAIRS

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Exploratory Talks with Mr. Lu.

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Dear Mr. Nolte,

On March 21st of this year the Vice-Minister for Foreign Trade of the People's Republic of China, Mr. Lu Hsu-chang, arrived in London for a three week visit as the official guest of Her Majesty's Government. It was an event without precedent in the somewhat sombre history of the relationship of Britain and China since 1949. Not only was it the first visit paid to Britain by any Chinese dignitary of such high rank, it was the first time any minister of the People's Republic had been to a Western country for any purpose other than the Laos negotiations at Geneva, in 1958. Not that Britain was singled out for the distinction, for after leaving us Mr. Lu and his delegation spent several days in Switzerland, followed by several weeks in the Netherlands.

There was nothing new about the invitation; in fact it originated in 1957 when Mr. Erroll, President of the Board of Trade and Mr. Lu's principal official host, was in Peking as Parliamentary Secretary at the Board of Trade. The first public indications that the invitation might be taken up were in November, 1962, - a time when the wholesale cancellation of Chinese orders in the Soviet Union and Eastern Europe was being accelerated. The first date set was in late November, but this was later set aside, doubtless because of the situation on the Indian frontier, and the visit was postponed until March. It is perhaps worth noting that the assumption by the British Government of an attitude hostile to China - including the supply of arms and advice to India - did not lead to a more radical breach in commercial relationships of the kind that followed the British action in Suez and Jordan and the Belgian action in the Congo.

Mr. Lu's visit seems a useful starting point for a survey of some aspects of Chinese trade with Britain at the present time. In this letter I shall try to put the visit into some sort of perspective; in subsequent letters I shall develop some of the problems that arise from this trade. Before I relate such details as I have at my disposal of Mr. Lu's visit it is necessary to say something of the way in which China carries on its foreign trade.

Although it might not be safe to say that there was no private trade in China, it has long been the case that all foreign trade is carried on by a number of publicly owned corporations on behalf of the government. Each of these bodies deals with particular commodities or types of commodity, and with the exception of one or two of them, they function as import and export agencies. Although most of them have branches in the main cities of China itself, none of them have branches

outside China, and with the exception of the China Resources Company Limited, in Hong Kong, none of them have any regular agents abroad, at any rate in Western European countries. (I am omitting for present purposes regular relationships with firms of ship brokers, which are not unimportant; the Chinese Government are now the largest single charterers of tramp shipping.) The result is that although much of China's trade still goes through merchants in Hong Kong, particularly as regards exports, all direct trade elsewhere has either to be done by special missions going from one country to another, or by letter and telegraph. (It should be added that apart from two banks which maintain branches in Shanghai there are no British commercial establishments in China.) In general foreign businessmen are only given visas to enter China if specifically invited by one of the trading corporations, though twice a year a trade fair is held at Canton to present export commodities to those traders who are prepared to make the journey and to spend a month of hard bargaining before getting a firm commitment. As a rule exports to China are arranged by Chinese missions abroad, and there have been quite a number of these in England in the past few years.

At a higher level there is a Commercial Counsellor attached to the Office of the Chinese Chargé d'Affaires in London - one of only two in Western Europe, the other being in Berne. Just as the Soviet Trade Delegation in London lurks in semi-seclusion in the fashionable, wooded suburb of Highgate, far from the commercial centres of London, so the Chinese Commercial Counsellor has his office in the equally residential though less fashionable area to the north of Regent's Park - almost discouraging people, one feels, from leaving their offices to go up there. The Commercial Counsellor rarely acts as an agent for the trade corporations directly, and seems chiefly to act as a distributor, and no doubt a gatherer, of information, issuing among other things the quarterly "Foreign Trade of the People's Republic of China".

On the British side there are several organizations interested in the furtherance of the China trade. The London Chamber of Commerce and the Association of British Chambers of Commerce speak for themselves. The Federation of British Industries has a department devoted to problems of trading with Communist countries which takes a great interest in China. There is also the China Association, consisting largely of merchants and others trading to China, and probably largely representing the interests of importers. (It also appears from its Bulletin to serve the subsidiary function of keeping contact with the former British residents of China.) These four are the constituent members of the Sino-British Trade Council, formed in 1952, which acts as the unofficial negotiating body with China, the Chinese Government for this purpose being represented by the China Committee for the Promotion of International Trade. This latter body has a number of important functions, among them being the provision of arbitration facilities for foreign trade. It is also the parent body of various 'Councils for the Promotion of International Trade' which exist in a number of countries and which apparently have as their chief objective the ending of the embargo; there is one in London which is occasionally able to act as a broker for small firms which

are anxious to do business with the Chinese.

It seems quite clear that Mr. Lu's visit was not meant to herald any radical change in this pattern. He himself described it as a "goodwill gesture to explore the possibilities of Sino-British trade expansion". In particular there was clearly no question of the negotiation of an inter-governmental trade agreement of any kind. Such agreements, whether of the traditional "most favoured nation" type or of the kind, usually concluded for one year, and familiar in the economic relations of Communist states, have not been a part of the pattern of trading between China and the Western bloc countries that trade with her, though China has concluded such treaties with a number of under-developed countries. (A recent example is Pakistan, with whom China signed a full-dress treaty of commerce and navigation, granting most favoured nation treatment, on January 5th of this year.) As one correspondent put it, Britain was really just receiving "least disfavoured nation treatment".

It may well be that the arrangement of long term credits was one of Mr. Lu's main objectives for, despite the prospect of improved harvests, it seems unlikely that China could make very large strides in her foreign trade without them, particularly in view of her present relationship with the Soviet Union, her main source of long term credit in the past. That was certainly the view of the City editor of the "Sunday Times" but it is at present impossible to substantiate it. It is certainly unlikely that his sole reason for coming was to supervise the several deals that were in the course of negotiation at the time; all of them could have been left to the normal missions sent by the trade corporations, of which there were several in the country at the time.

The visit lasted just over three weeks. Mr. Lu had four companions, including Mr. Hsieh Shou-tien, managing director of the China National Metals and Minerals Import and Export Corporation; three of them, like himself, were former Shanghai brokers. The fourth, a young interpreter, was by all accounts a particularly alert man despite his apparently inferior function. The day after his arrival, Mr. Lu called on the President of the Board of Trade, the Economic Secretary of the Treasury and the Minister of State at the Foreign Office. During the next three weeks, visits were arranged to a number of important industrial centres, including the works of Marconi, Vickers, (aircraft) I.C.I., (all kinds of chemical products and chemical engineering) Courtaulds, (textiles) English Electric Company, Steel Company of Wales, Guest, Keen and Nettlefolds, (steel) Rootes, (tractors and trucks) and Massey Ferguson, (tractors). Visits were also made to the Port of London, Bradwell nuclear power station, shipyards in Glasgow and a planned "new town" called Crawley.

At the personal level the talks went well, it would appear, and the visitors, although described as "cool operators" by one official, allowed themselves to admire industrial progress in England moderately, admitting that it would take 10 - 15 years for China to catch up. Apart from this, however, I understand that they showed almost total

indifference to such aspects of English life as they came across. (I heard no complaints about the food in English provincial hotels, of which the delegation made extensive use; it may be that the older members had been schooled in the "English restaurants" of which one sometimes hears tell from those familiar with Shanghai in former days.) As an official told me, it was, after all, the first time anyone in Mr. Lu's position had been allowed out.

There was some quite careful preparation for the visit. The press had to be asked tactfully to describe Mr. Lu and his delegation correctly, that is, as coming from the People's Republic of China, or just China - never "Communist", "red", or "mainland" China, all of which would be regarded as abusive and calculated to poison international relations. Inevitably someone slipped up, and there were vigorous protests to the Foreign Office and to the Board of Trade. The Chinese, I understand, found it hard to accept that the Government had no control over the press - after all, we had no constitutional guarantee of the freedom of the press as they had. (Article 87 of the Constitution provides: "Citizens of the People's Republic of China enjoy freedom of speech, freedom of the press, freedom of assembly, freedom of association, freedom of procession, and freedom of demonstration. The state guarantees to citizens enjoyment of these freedoms by providing the necessary material facilities.")

At the conclusion of the visit, after a round of official and semi-official entertainments at which toasts were freely exchanged to the future of Sino-British trade, the Vice-Minister had a few words for the press at London Airport. After telling them that the purpose of the visit had been to make a goodwill gesture to explore the possibilities of trade expansion, he said that he had "met people in industrial and commercial circles, and most of us have a common desire of expanding trade between our two countries. Britain is an advanced industrial country and many of her products can find a market in China." A Board of Trade spokesman announced that the Chinese Government had invited Mr. Erroll for a return trip, which had been accepted, but without a firm date being fixed.

What were the visible results of Mr. Lu's visit? It is certainly true that a certain amount of solid commercial negotiating went on at the same time as his visit, of which some details have come to light. Four other purchasing missions from the various trade corporations were in England during the period January - May 1963. It is too early to say exactly how much business has been done, but an example is the order placed by Mr. Hsieh Shou-tien with Richard Thomas and Baldwins Ltd. for £550,000 worth of tin plate and sheet steel. (Mr. Hsieh had previously spent some time exploring the West German steel market; no firm deals have yet been announced from that quarter, as far as I know, but no doubt the negotiations strengthened Mr. Hsieh's hand in Britain.) A number of orders have also been given by a mission led by Mr. Chen Yang, Deputy General Manager of the China National Machinery Import and Export Corporation, and negotiations are still pending for such

things as precision machine tools, driving and control equipment for industrial and marine use, and agricultural and irrigation machinery.

On the other hand, the long standing negotiations for the sale to China of some or all of the 14 Bristol "Britannia" 102 turbo-prop. airliners for which B.O.A.C. have been trying to find a buyer were not in the end successful, despite a flight by Mr. Lu and his friends in one. It appears that the Chinese felt that enough technical problems were posed by the introduction (due at the time of writing) of the six Vickers "Viscount" 800s, which they bought late in 1961, to make it difficult to introduce another type of foreign aircraft just now.

A less tangible but nonetheless significant result of the visit has been that British businessmen returning from the Spring export commodities fair at Canton last month reported that the Chinese trade authorities were "very well disposed towards British interests" as a result of Mr. Lu's coming to Britain. Other evidence of a new atmosphere is the arrangement of an exhibition of the products, or of certain products, of three British firms in Peking, starting late in July and lasting for several weeks. The three firms are I.C.I., De La Rue, and the Morgan Crucible Company. An invitation has also been given for a more extensive exhibition in Peking in the Autumn of 1964. It has been made clear, however, that this is not to be made the occasion for a display of Western luxury - there are to be no consumer goods on display. An advantage from the Chinese point of view which immediately suggests itself will be that the ultimate consumers of imported equipment, the managers of China's industry, will have a much more direct contact with the manufacturers and a much greater say in the placing of orders.

All this has given rise to a certain amount of speculation, and a cautious optimism, about the possibility of a considerable increase in British trade with China in the near future. Such a development would be particularly welcomed at the moment, as there has been a sharp and continuing fall in the volume of trade between the two countries since 1960, which continues to be reflected in the monthly trade figures as late as March of this year. As the table which I reproduce below shows, from 1952 (the year in which the Chinese policy of reducing commercial contacts with the non-Communist world was at its height) to 1960, total trade figures climbed steadily until 1960, after which the effects of the disastrous harvests and the failure of the "great leap forward" policy began to make itself seriously felt in the sphere of foreign trade through the grave shortage of foreign exchange, (despite heavy selling of silver bullion on the London market in 1961 and 1962.)

The figures are taken from a recent article in the "China Quarterly" by A.Boone, and the more recent ones from "The Times"

U.K. - China Trade, 1952 - 62.

(£ millions)

Year:	1952	1954	1956	1957	1958	1959	1960	1961	1962
Exports to China:	4.5	6.8	10.6	11.2	26.6	24.4	31.4	12.8	8.4
Imports from China:	3.0	9.0	12.6	13.3	18.5	19.6	24.9	30.8*	23.1
Total:	7.5	15.8	23.2	24.6	45.1	44.0	56.3	43.7	31.5

* For 1961 and 1962 important quantities of silver bullion of the value of £15.5m and £9.9m respectively were imported, making the approximate values of general merchandise for those years £15.3m and £13.2m.

These figures certainly lend force to a recent remark in the "New York Times" that "The China trade keeps beckoning but remains more a mirage than a dependable reality." A lot of businessmen in England allow themselves to be tempted. Without going into the wider question of China's foreign trade structure as a whole, I can summarize some of the arguments put forward as follows. The agricultural and administrative dislocations of the last few years had a dual effect: it reduced the number of agricultural products which could be sold abroad to earn foreign currencies (about 70 per cent of China's exports in earlier years were of such products, many of them foodstuffs and it also involved the country in extensive purchases of grain abroad, which were a drain on such foreign exchange as was earned or saved. Accordingly reports of much better harvests, if they are justified, make both importers and exporters more optimistic. It is noticeable that the Chinese have shown particular interest in buying machinery and plant which is directly related to the needs of agriculture, and this, together with stated objectives of the Government, is giving an impression here that the Chinese now regard improvement in agriculture as the first step towards achieving a viable economic position, both internally and externally. This on the whole meets with the approval of those who look for an upturn in foreign trade, though it is of course recognized that there will remain several important obstacles, such as the problem of long term credits referred to earlier.

Mr. Lu's visit must also, of course, be seen in the light of the friction between China and the Soviet Union. It has long been clear that the attempt to create a monolithic economic bloc had foundered, and in the last few days the extent and importance of the disruptions which have taken place since 1958 are becoming clearer. In the absence of official statistics, the United Nations economists estimated a drop of 20 per cent in Sino-Soviet trade alone in 1959 - 1960, with an even greater drop in later years. Now, according to the open letter of the Communist Party of the Soviet Union of 12th July, it appears that these figures were fully justified. "On the initiative of the People's Republic of China Government, the volume of China's

trade with the Soviet Union was cut almost 67 per cent in the last three years; deliveries of industrial plants dropped 40 times." The Chinese have also begun to complain bitterly of the way in which their economic effort was undermined by the withdrawal of Soviet assistance, both technical and financial. Without apportioning blame we can see that a most serious dislocation took place in China's foreign trade, the more serious in view of the Communist bloc having been almost the sole source of China's long term credit, though this was already being curtailed in 1957 - 1958. It would probably be unwise to regard this breach as irreparable, in the economic sphere at least; on 20th April, a few days after Mr. Lu ended his visit here, China and the U.S.S.R. signed a trade agreement for the current year, and in the middle of June an agreement providing for scientific and technical co-operation for a further year was signed. It is true that among the terms of the former treaty was a provision that the trade balance which accumulated in China's favour in 1962 should be used to pay off part of her debts to the Soviet Union (which are not strictly due until 1965) which suggests that China is not at the moment contemplating an increase in imports from Russia, but the significance of the second pact ought not to be overlooked.

That there is some room for the diversification of China's foreign trade within the Eastern bloc is shown by the example of Rumania, which itself appears to be following a policy which runs counter to Russian policy at the moment. The last two months have seen an unprecedented number of exchanges between the two countries, both of agreements and of missions. It is thought that the main item of importance to China in this is oil; a third of her needs have to be imported, and the Rumanians can doubtless supply help for the developing Chinese oil industry. Nonetheless, it is likely that a large proportion of China's imports will have to come from the non - Communist world. The Soviet Union will probably not be alone in seeking to increase its ties with the West as the result of the dispute. Partly, no doubt, for political reasons, partly, maybe, in the belief that the capitalist world will give better security against the sudden disruption of long term plans, and perhaps partly even for the reason that led the less inhibited Indonesians to ask the Russians if they could use Soviet loans to buy American tractors rather than Russian ones, the Chinese appear to be seeking commercial contacts with Western countries like Britain on an unprecedented scale.

Those interested in the China trade take comfort from these developments, but their difficulties do not end there. In a later newsletter I hope to describe some of the problems confronting the private individual or company who trades with China.

Yours sincerely,

Anthony Dukes