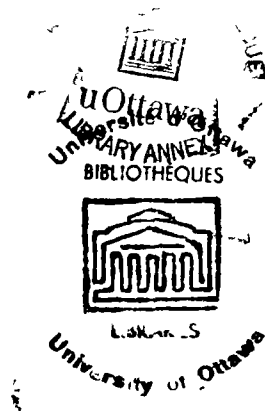


THE FOREIGN AID PROGRAMMES AND POLICIES
OF THE PEOPLE'S REPUBLIC OF CHINA,
1953-1974

by Michael D. Moore

Thesis presented to the School of
Graduate Studies of the University
of Ottawa as partial fulfillment of
the requirements for the degree of
Master of Arts



Ottawa, Canada, 1976

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ACKNOWLEDGEMENTS

This thesis was prepared under the supervision of Professor Gordon Boreham, Ph.D., of the Department of Economics of the University of Ottawa.

The writer is indebted to the Department of Industry, Trade and Commerce of the Government of Canada for granting sabbatical leave to undertake the research for this project.

CURRICULUM STUDIORUM

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LIST OF ABBREVIATIONS

Comecon	Council for Mutual Economic Assistance (CMEA)
CPC	Centrally Planned Economy Country
DAC	Development Assistance Committee (of the OECD)
DMC	Developed Market Economy Country
EEC	European Economic Community
GATT	General Agreement on Tariffs and Trade
GNP	Gross National Product
GSP	Generalized System of Preferences
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
LDC	Less Developed Country
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PRC	People's Republic of China
SDR	Special Drawing Right
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development

LIST OF ABBREVIATIONS

UNDP	United Nations Development Programme
UNGA	United Nations General Assembly
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
US	United States
USDS	United States Department of State
USSR	Union of Soviet Socialist Republics

INTRODUCTION

Since the founding of the People's Republic of China (PRC) on October 1, 1949, the Chinese economy has undergone a remarkable transformation--from a desperately poor nation in the beginning, with most of its people living in misery and degradation, to an economically strong and unified nation a quarter of a century later, with the capability to not only meet the requirements of feeding its growing population and building up its economic base, but also to maintain and expand an impressive foreign aid programme. The PRC began its programme of economic assistance to the developing countries in the mid-1950s, at a time when China was itself still receiving aid from the USSR. By the end of 1974, the Chinese had extended over six billion dollars of economic aid, as well as sizable amounts of military aid.

While a fair number of studies have been published on the development of China's economy and foreign trade, relatively little has been written about Chinese foreign aid. (The Bibliography of this thesis contains a list of sources on Chinese aid.) This is not surprising since the general lack of hard data on all aspects of the Chinese economy, and foreign aid is no exception, makes research in this area far more difficult than similar work relating to the

economies of Western countries.

In the 1950s, the Chinese began the development of an elaborate economic statistical system, but it fell victim to the excesses of the Leap Forward. Since that time, Peking has enforced a statistical blackout so complete that only a handful of official figures on the national economy have been released since 1960. Outside observers, however, have been able to piece together a good general appraisal of trends in the economy through the use of foreign trade data (collected by China's trading partners), the accounts of travellers and refugees, and the cryptic discussions of economic issues in the Chinese press. (For a brief discussion of the sources of information on the Chinese economy, see Appendix A of this thesis.)

Statistics on China's aid programme are drawn from New China News Agency communiques, statements by recipient countries, and numerous press reports. The various sources occasionally differ as regards the amount or timing of a transaction, but are in broad agreement over the long-term trend. Certain discrepancies may also arise due to the exchange rate used. (All monetary valuations in this thesis are expressed in US dollar equivalents unless otherwise specified.) The Chinese aid figures used in this thesis are primarily based on compilations by the United States Department of State (USDS) and the Organization for Economic Co-op-

eration and Development (OECD).

Not only have there been relatively few studies of Chinese aid, but most of them have concentrated on the political considerations and consequences of the Chinese aid programme. As far as possible, these factors will be ignored in this thesis. This is not to say that political factors are not important, or are less significant than economic factors. It is simply that they do not make up the subject matter of this study; our objective here is to examine the economic aspects of an aid programme from the donor country's point of view. Of course, a certain amount of political and historical background is necessary to any examination of the PRC's aid programme. For this reason, reference will be made now and then to Chinese foreign policy, particularly in the discussion in Chapter IV of the motives for Chinese aid-giving.

The purpose of this thesis is to assess China's aid-giving performance by evaluating the volume, geographic distribution, composition, financial terms and conditions, and motivation of China's economic and technical assistance to the developing countries from 1953 to 1974, by estimating the real cost or burden of these aid flows on the Chinese economy, and by comparing the results of these investigations to the aid programmes and policies of other donors. The reader is cautioned that the conclusions must be regarded as tentative.

This is an under-explored area where it is difficult to make precise calculations, in particular because of the paucity of accurate and reliable data. On the other hand, a high degree of accuracy is not required in order to draw a number of general conclusions. Moreover, it is hoped that the attempt to arrive at specific quantitative estimates of the cost of Chinese aid will provide an incentive for other students to improve upon them.

For the purpose of this thesis, the world is divided into three major groups: the developed market economy countries (DMCs), the centrally planned economy countries (CPCs), and the less developed countries (LDCs). The term "DMCs" includes the member countries of the Development Assistance Committee (DAC) of the OECD--Australia, Austria, Belgium, Canada, Denmark, Finland, France, West Germany, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, and United States--plus the following non-DAC countries--Iceland, Ireland, Luxembourg, and the Republic of South Africa. The term "CPCs" includes the Union of Soviet Socialist Republics (USSR), Eastern Europe (Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania), and the People's Republic of China, as well as Albania, Cuba, North Korea, Mongolia, North Vietnam, and Yugoslavia. The term "LDCs" comprises the remaining countries and territories of the world. Specifically, it includes Asia and Oceania (excluding Japan, Australia, and New Zealand), Africa

(excluding the Republic of South Africa), Latin America, and Southern Europe (Cyprus, Gibraltar, Greece, Malta, Portugal, Spain, and Turkey).

The country groupings are intended for statistical convenience only, and are not meant to imply a precise estimate on the part of the writer concerning the stage of economic development or type of economic system of any country. The definition of LDCs used in this thesis conforms to that used by the OECD and the United Nations (UN), except that both include Cuba, the OECD also includes Yugoslavia, and the UN excludes Southern Europe. In addition to the three categories mentioned above, two other geographic classifications are employed: "developed countries", which refers to the DMCs plus the USSR, Eastern Europe, and China; and "developing countries", which refers to the LDCs plus Albania, Cuba, North Korea, Mongolia, North Vietnam, and Yugoslavia.

Although the discussion in this thesis focuses on China's economic and technical assistance to the LDCs, it also examines Chinese aid to other CPCs, to the extent permitted by data limitations. This represents a valuable contribution to the thesis because most available studies of Chinese aid have ignored the continuous and significant flow of resources to other CPCs, which dates back to 1953 and actually pre-dates the LDC aid programme by three years.

In addition, a brief section on Chinese military assistance is included to round out the discussion. Moreover, since the problems of economic development and growth are affected as much (if not more) by normal commercial flows as by the transfer of resources on concessional terms, China's trade with the developing countries is also scrutinized.

The term "economic aid", or "economic assistance", is used in this thesis to refer to all grants and loans from the developed countries to the developing countries that are concessional in nature and which are undertaken primarily for the purpose of assisting development. In the case of aid from the DMCs, the term corresponds to the DAC definition of official development assistance (ODA), i.e. "those flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests: (a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and (b) it is concessional in character and contains a grant element of at least 25 per cent."¹ (The concept of grant element is defined on

¹OECD, DAC, Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee: 1974 Review (Paris: OECD, 1974), p. 115, n. 1.

p. 26,n. 23 below.) For the CPCs, economic aid is defined as all bilateral grants and loans extended to developing countries which have a minimum repayment period of five years and a maximum interest rate of eight per cent.² Short-term credits and assistance for the purchase of military equipment are excluded. Furthermore, CPC contributions to international aid organizations, such as the UN Development Programme (UNDP) and the UN Children's Fund (UNICEF), are negligible.

The important distinction is made between commitments and disbursements. The term "commitments", or "extensions", refers to a formal declaration of intent to provide goods and services. Commitments are considered to be made on the date the loan or grant agreement is signed or the obligation is otherwise made known to the recipient country. The term "disbursements", or "drawings", refers to the actual delivery of goods or use of services. The aid programmes of the DMCs are usually reported on a "net disbursements" basis, i.e. gross disbursements less repayments of principal on earlier loans, while data concerning the aid programmes of the CPCs are collected on a "commitments" basis.

The rest of this thesis is organized in five chapters. The first two chapters provide the necessary comparative

²This agrees with the USDS definition. USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1974, Report No. 298, January 27, 1976, p. iii.

setting. Chinese aid, like any other topic of research, cannot be studied "in a vacuum"; it is essential to have an understanding of the rapidly evolving economic environment in order to put China's aid programmes and policies in their proper context. Chapter I examines the external environment. Since the end of the Second World War, particularly since the start of the First UN Development Decade in 1960, most of the developed countries have taken steps to improve their foreign aid and trade policies in favour of the developing countries. Although these efforts have produced some results, the results are small when compared to the objectives still to be achieved. Chapter II deals with the internal environment. China's economic policy has fluctuated widely between 1949 and the present day. For the period as a whole, the Chinese economy has experienced strong but erratic growth, averaging an annual increase of six per cent. China's foreign trade has followed closely the trends in the domestic economy and has grown at an average annual rate of nine per cent.

The next two chapters analyze China's aid programmes and policies in detail. Chapter III evaluates the volume and geographic distribution of the PRC's economic and technical assistance to the developing countries. Since the mid-1950s, China has extended 3.5 billion dollars of economic assistance to the LDCs and 2.7 billion dollars to the CPCs. The geo-

graphic distribution of China's aid programme in the CPCs has been much more concentrated than its aid programme in the LDCs, which has been directed mainly toward African countries. Furthermore, the Chinese have sent abroad thousands of experts to plan and supervise the implementation of Chinese aid projects. The PRC also conducts a large part of its foreign trade with the LDCs. Chapter IV examines the composition, financial terms and conditions, and motivation of Chinese aid. China's economic assistance is almost exclusively bilateral, tied to the procurement of goods and services in the PRC, and has been extended mainly for aid projects in the transportation, light industrial, and agricultural sectors. Although outright grants account for only a small portion of Chinese aid to the LDCs, China's development assistance loans have been extended on very concessional terms (typically zero per cent interest, 10 years grace, and 20 years maturity in the 1960s and even softer terms in the 1970s). Economic and political self-interest seem to have played a considerable role in Chinese aid policy.

The concluding chapter looks at the PRC's aid effort in perspective. Chapter V estimates the real economic cost or burden of Chinese aid and relates the estimated cost to the aid-giving capacity of the Chinese economy, and then compares the results of these investigations to the aid programmes and policies of other donor countries. As mentioned

above, China's economic aid programme appears to be a six billion dollar operation. However, economic aid has actually cost the PRC economy something less than this, perhaps 3.6-3.9 billion dollars, representing approximately 0.2 per cent of GNP in 1974. China's aid-giving performance stands up fairly well to international comparison. The PRC's aid/GNP ratio is higher than the other CPC donors; while it is slightly lower than the average for DMC donors (0.3 per cent), China's per capita GNP is considerably lower than that of the DMCs. Furthermore, China extends its economic assistance on better terms than other CPC donors and many of the DMC donors. The thesis ends with a series of brief conclusions based on China's experience as an aid donor.

CHAPTER I

THE EXTERNAL ENVIRONMENT: FOREIGN AID AND TRADE IN THE WORLD ECONOMY

The two main aspects of the external environment, in the present context, are the flow of grants and concessional loans (or foreign aid) from the developed countries to the developing countries, and the flow of imports (or foreign trade) from the developing countries into the developed countries. Section 1 examines the aid-giving performance of the developed countries. While most of them have promised to reach certain goals and targets concerning the magnitude and effectiveness of the flow of resources to the LDCs (such as the one per cent of GNP and 0.7 per cent of GNP aid targets), most of these objectives have not yet actually been attained. Furthermore, despite a massive transfer of aid to the LDCs in recent years, the volume of these resource flows has been declining in relation to the national product of the donor countries. Section 2 considers the performance of the developed countries from the standpoint of encouraging imports from the LDCs. The trade liberalizing forces of the last 25 years, such as the Kennedy Round of trade negotiations and the Generalized System of Preferences, have exerted a

positive influence on developed country imports from the LDCs. Nevertheless, most of the developed countries continued to impinge in one way or another on imports from the LDCs, and LDC exports in 1974 accounted for a smaller share of total world exports than they did a quarter of a century ago. Some other features of the external environment are described in Section 3.

1. Foreign Aid in the World Economy

The concept of aid-giving has existed probably as long as mankind itself. Certainly, it is deeply rooted in Judaeo-Christian tradition, which has been the foundation of Western civilization for the past two thousand years. However, it is only within the last two or three hundred years that aid-giving became truly international or global in scope, but still on a relatively restricted basis--usually within the framework of colonial relationships between the major Western powers and their dependent territories. The modern concept of "foreign aid" started after the Second World War with the Marshall Plan for the economic rehabilitation of Europe and the Colombo Plan for the economic development of South and Southeast Asia. The need and demand for economic assistance increased sharply in the 1950s as the colonial system disintegrated and scores of dependent areas achieved sovereign status. In 1961, in a determined global effort to

improve the economic and social standards of the developing countries, the UN General Assembly (UNGA) designated the 1960s as the First United Nations Development Decade. The Second United Nations Development Decade began in 1971.

Today, the international aid effort is producing a transfer of resources to the developing world that is of a nature and on a scale new to history. Since the mid-1950s, the developed countries have extended over 130 billion dollars of economic aid to the LDCs (see Tables 1-2 below for details). This flow of loans and grants to the LDCs may be divided into two major parts--that coming from the DMCs and that coming from the CPCs--which are assessed separately and differently.¹ While most of the DMCs report annually on the flow of resources to the LDCs through the Development Assistance Committee of the OECD, the CPCs do not publish any statistics on this subject on a regular basis. Therefore, the transfer of resources from the CPCs to the LDCs must be estimated with the aid of two proxies--the various reports (often unofficial) that are made in connection with commitments of aid for specific purposes and the trade balances between individual CPCs and

¹According to the OECD, the 17 member countries of the DAC and the CPCs accounted for more than 90 per cent of the net bilateral flow of resources to the LDCs in 1974. Most of the remainder came from the member nations of the Organization of Petroleum Exporting Countries (OPEC). OECD, DAC, Development Co-operation, Efforts and Policies of the Development Assistance Committee: 1975 Review (Paris: OECD, 1975), Table VI-13, p. 126.

LDCs which reflect the actual flow of goods from the former not paid for by the reverse flow of goods from the latter (see p. 19, n. 10 below).

Because of differences in the mechanisms involved and in the responsiveness to government policy decisions, the total flow of resources from the DMCs may be further separated into official and private flows. While the flow of private resources usually moves in response to financial incentives, the flow of official resources (which originates in the public sector) responds in principle to the needs of recipient countries and is thus a better test of official government policy. Furthermore, official transfers tend to be made on softer terms. Indeed, a new concept has emerged in recent years which deducts from official flows those components that are clearly commercial in their purpose in order to arrive at an entity called "official development assistance",² which is the only part of the total flow of resources that truly deserves to be called "foreign aid".

Net disbursements of ODA from the DMCs to the LDCs and multilateral agencies increased from 3.3 billion dollars in 1956 to 11.3 billion dollars in 1974, an average increase of about seven per cent a year at current prices (see Table 1).

²The DAC introduced the concept of ODA in 1969. For a definition of ODA, see p. 6 above.

TABLE 1
DMC AID TO THE LDCs,^a 1956-1974
(Millions of US Dollars)

Year	Total Aid	Bilateral			Multilateral
		Total	Grants	Loans	
1956	3,260	n.a.	n.a.	n.a.	n.a.
1957	3,856	3,435	n.a.	n.a.	421
1958	4,387	4,020	n.a.	n.a.	367
1959	4,311	3,978	n.a.	n.a.	333
1960	4,665	4,131	3,692	439	534
1961	5,197	4,676	3,991	685	521
1962	5,438	4,927	4,020	907	511
1963	5,772	5,405	3,940	1,465	367
1964	5,952	5,546	3,806	1,740	405
1965	5,895	5,547	3,714	1,833	348
1966	5,984	5,648	3,701	1,947	336
1967	6,536	5,800	3,578	2,222	736
1968	6,309	5,626	3,344	2,282	683
1969	6,621	5,571	3,251	2,320	1,050
1970	6,791	5,667	3,309	2,357	1,124
1971	7,661	6,323	3,618	2,704	1,338
1972	8,538	6,621	4,356	2,266	1,917
1973	9,378	7,110	4,460	2,649	2,268
1974	11,316	8,255	5,336	2,919	3,060

Sources: OECD, DAC, Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee: 1975 Review (Paris: OECD, 1975), Statistical Annex, Table 17, p. 217; OECD, DAC, Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee: 1974 Review (Paris: OECD, 1974), Statistical Annex, Table 33, p. 233; OECD, DAC, Development Assistance Committee: 1973 Review (Paris: OECD, 1973), Table II-2, p. 42; OECD, DAC, Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee: 1972 Review (Paris: OECD, 1972), Table II-1, p. 42; OECD, DAC, Development Assistance, Efforts and Policies of the Members of the Development Assistance Committee: 1971 Review (Paris: OECD, 1971), Table II-1, p. 34; Lester E. Pearson, Partners in Development: Report of the Commission on International Development (New York: Praeger Publishers, 1969), Annex II, Table 15, p. 378.

^aNet disbursements of official development assistance by the 17 member countries of the DAC.

There was a notable spread in the extent of DMC involvement in the provision of development assistance: in 1960 almost 90 per cent of ODA came from only four countries (the United States, France, United Kingdom, and West Germany) which by 1974 accounted for less than two-thirds of the total.³

The total net flow of resources from the DMCs, which includes not only ODA, but also other official flows and private flows, increased from 6.3 billion dollars in 1956 to 27.6 billion dollars in 1974, an average annual increase of about nine per cent at current prices.⁴ Of the 27.6 billion dollars in 1974, ODA accounted for 41 per cent, other official flows (including official export credits) for eight per cent, and the flow of private capital (including direct investment and private export credits) for 51 per cent.

Commitments of bilateral economic assistance from the CPCs to the LDCs averaged 548 million dollars annually during 1954-1964, and increased from 840 million dollars in 1965 to 1.3 billion dollars in 1974 (see Table 2).⁵

³DAC, 1975 Review, Statistical Annex, Table 2, p. 195; OECD, DAC, Development Assistance, Efforts and Policies of the Members of the Development Assistance Committee: 1971 Review (Paris: OECD, 1971), Statistical Annex, Table 2, p. 165.

⁴DAC, 1975 Review, Statistical Annex, Table 1, p. 194; Lester B. Pearson, Partners in Development: Report of the Commission on International Development (New York: Praeger Publishers, 1969), Annex II, Table 15, p. 378.

⁵The data in Table 2 are not strictly comparable to those in Table 1 since the latter refer to net disbursements while the former refer to commitments.

TABLE 2
 CPC AID TO THE LDCs,^a 1954-1974
 (Millions of US Dollars)

Year	Amount
1954-1964 (Average)	548
1965	840
1966	1,582
1967	447
1968	604
1969	903
1970	1,101
1971	1,965
1972	1,995
1973	1,569
1974	1,336

Sources: USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1974, Report No. 298, January 27, 1976, Appendix, Tables 1-4; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1973, Research Study INR RS-20, October 10, 1974, Appendix, Tables 1-4; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1972, Research Study RECS-10, June 15, 1973, Appendix, Tables 1-4.

^aCommitments of bilateral grants and loans by the USSR, the Eastern European countries, and China.

The annual level of new commitments fluctuated considerably between 1965 and 1974, and averaged a five per cent annual increase during the period. The source of the aid flow was concentrated in a relatively small number of donor countries: only two countries (the USSR and China) accounted for over 70 per cent of the CPC aid extended from 1954 through 1974.⁶ The remainder originated in the Eastern European countries. The CPC donors have also extended substantial amounts of economic aid to other, less developed CPCs, such as Cuba and North Vietnam. In addition, two multilateral institutions--the UN Development Programme (UNDP) and the UN Children's Fund (UNICEF)--have received small contributions from the CPCs, totalling some 11 million dollars in 1974, and in April, 1973 the Comecon countries (USSR and Eastern Europe) decided to establish a special Development Aid Fund of one billion transferable roubles (1.3 billion dollars), five per cent of the total contribution to be paid in convertible currencies, and the first instalment of 135 million dollars due in 1976.⁷

Although precise information on the volume of aid disbursements (as opposed to commitments) by the CPCs is not available, estimates by the OECD and the USDS suggest

⁶USDS, Aid and Trade in 1974, Appendix, Table 1.

⁷DAC, 1975 Review, p. 175.

that approximately 50 per cent of Soviet aid commitments and 35-40 per cent of Eastern European aid commitments have been drawn down.⁸ Carol Fogarty estimates that almost one-half of China's aid commitments have actually been disbursed.⁹ Furthermore, according to the UN, the increasing size of the annual trade surplus between the CPCs and the LDCs indicates that the volume of aid disbursements by the CPCs has probably been rising.¹⁰ For example, the trade surplus steadily

⁸ OECD, Flow of Resources to Developing Countries (Paris: OECD, 1973), Tables 1-2, pp. 408-409; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1973, Research Study INR RS-20, October 10, 1974, Appendix, Table 5.

⁹ Carol H. Fogarty, "China's Economic Relations with the Third World", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), p. 733.

¹⁰ Over a period of time, the relationship between CPC aid commitments and disbursements is usually reflected in trade, and as a first approximation it might be assumed that the balance of trade between the CPCs and the LDCs would provide a rough measure of the amount being financed by loans or grants. As trade is not the only occasion for payments and as not all trade is paid for on a purely bilateral basis, the correspondence between the aid extended and the country's trade surplus is by no means a precise one year by year. In general, however, a clear tendency for the size of the annual trade surplus to increase or decrease over a number of years gives an indication of the direction (if not the exact magnitude) of change in aid disbursements. UN, Department of Economic and Social Affairs, World Economic Survey, 1974, Part One: Mid-term Review and Appraisal of Progress in the Implementation of the International Development Strategy (New York: UN, 1975), pp. 179-180; UN, Department of Economic and Social Affairs, World Economic Survey, 1969-1970, The Developing Countries in the 1960s: The Problem of Appraising Progress, (New York: UN, 1971), pp. 169-170.

expanded from 815 million dollars in 1965 to more than four billion dollars in 1973 (see Table 5 of this thesis)--an almost five-fold increase, compared to a gain of 87 per cent in the annual volume of aid commitments between 1965 and 1973.

The aid-giving performance of the developed countries has been more notable for its efforts than for its achievements. Although most of the developed countries have promised to reach certain goals and targets concerning the magnitude and effectiveness of the flow of resources to the LDCs, most of them have not yet actually been attained. In terms of an international effort toward providing development assistance to the LDCs, the main highlights have been the promises by the majority of the developed countries to attempt to attain the following goals and targets: (1) the target that each developed country provide financial resource transfers to the LDCs of a minimum net amount of one per cent of its gross national product (GNP), (2) the target that each developed country provide ODA to the LDCs of a minimum net amount of 0.7 per cent of its GNP, and (3) the goal that the developed countries soften the terms on which these transfers are provided to the LDCs.

Although the one per cent target dates back to the

1950s,¹¹ it was not until the adoption by the UNGA in 1960 of a strategy for the First UN Development Decade, in which the developed countries undertook to try to provide financial resources to the LDCs equal each year to one per cent of their combined national income, that the idea became the key aid target for the developed countries. At the first session of the United Nations Conference on Trade and Development (UNCTAD I) in Geneva in 1964, the target underwent its first refinement when the "financial resources" to be counted against the target were defined in terms of specific flows in the balance of payments and made applicable to each of the countries separately. At UNCTAD II in New Delhi in 1968, it was further revised by establishing "GNP at market prices" as the base for the one per cent target in place of "national income", which had been used in the original resolution.¹² The one per cent target is usually categorized as an "aid" target, but it actually includes private flows, official export credits, and other official flows in addition to ODA.

¹¹The proposition was first introduced for international consideration in 1958 in a statement adopted at a meeting of the World Council of Churches, and circulated to all UN delegations, which stated that if contributing countries could divert at least one per cent of their national income to grants and concessional loans the international picture would be much more hopeful.

¹²Before UNCTAD II resolved the problem, there had been a controversy between the DAC, which called upon its members in 1965 to attain the one per cent target, and the UN over the interpretation of the term "national income". While the DAC preferred to measure national income as net national product at factor cost, the UN had been using gross national product at market prices.

The 0.7 per cent target is a more meaningful aid target. While no agreement was reached at UNCTAD II on a separate target for official flows, it was decided that endeavours should be made to ensure that official flows represent a substantial part of the total financial resources provided to the LDCs. The Report of the Commission on International Development (the Pearson Commission) recommended in 1969 a specific target for ODA and the setting of specific time spans for the achievement of both the one per cent and 0.7 per cent targets.¹³ The Commission's recommendations were reflected in the strategy for the Second UN Development Decade which was adopted by the UNGA in 1970 and included the following proposals: (1) each developed country should endeavour to provide by 1972 or, at the very latest, by 1975 annually to the LDCs financial resource transfers of a minimum net amount of one per cent of its GNP at market prices in terms of actual disbursements; and (2) each developed country should progressively increase its ODA

¹³Pearson, Partners in Development, pp. 143-151. In 1968, Lester B. Pearson, former Prime Minister of Canada, accepted the invitation of the President of the World Bank to become Chairman of the Commission on International Development to examine the progress and problems experienced in the field of international aid and development assistance over the previous 20 years, and to make recommendations on the best policies and methods to help promote the economic growth of the developing world in future years. The Commission was financed by the World Bank but worked in complete independence from it. The Commission's Report, Partners in Development, was presented to the World Bank in 1969.

to the LDCs and exert its best efforts to reach a minimum net amount of 0.7 per cent of its GNP at market prices by the middle of the decade.¹⁴ Both of these targets were incorporated into the resolutions of UNCTAD III in Santiago in 1972.

Although most of the developed countries, by accepting these targets,¹⁵ promised to work toward increasing their net outflow of resources to the LDCs in relation to GNP, the actual results indicate a downward trend. In 1960, the year in which the one per cent target was incorporated into the strategy for the First UN Development Decade, six DMCs (Belgium, France, Netherlands, Portugal,¹⁶ Switzerland, and United Kingdom) had achieved a total net flow of resources to the LDCs in excess of one per cent of GNP; in 1974, there were still only six countries (Belgium, Canada, France, Netherlands, Sweden, and United Kingdom) which had fulfilled this goal. The total net flow of re-

¹⁴UN, Department of Economic and Social Affairs, International Development Strategy: Action Programme of the General Assembly for the Second United Nations Development Decade (New York: UN, 1970), p. 9.

¹⁵Both volume targets have been accepted in principle by a majority of the DMCs, but some have not committed themselves to a specific target date, or to the specific figure of 0.7 per cent (in the case of the ODA target).

¹⁶Portugal was a member of the DAC until October, 1974 when it withdrew. In September, 1975, the DAC added Portugal to its list of developing countries.

sources from the DMCs to the LDCs in relation to GNP decreased from an average 0.89 per cent in 1960 to 0.81 per cent in 1974.¹⁷ Furthermore, in 1970, the year in which the 0.7 per cent target was incorporated into the strategy for the Second UN Development Decade, no DMCs had achieved a net flow of ODA in excess of 0.7 per cent of GNP; in 1974, there was only one country (Sweden) which had fulfilled this goal. The net flow of ODA decreased from an average 0.34 per cent of GNP in 1970 to 0.33 per cent in 1974.¹⁸

The CPCs have not even accepted the existing aid targets. The USSR and Eastern European countries continue to argue that the cause of the developing world's poverty is colonial expansion and that they are thus under no obligation to make "reparations". China, on the other hand, has acknowledged a moral obligation to assist the LDCs, but has not committed itself to a specific level of assistance because the PRC is still at a low stage of economic development itself.¹⁹

Since the terms and conditions on which resource

¹⁷DAC, 1975 Review, Statistical Annex, Table 1, p. 194; DAC, 1971 Review, Statistical Annex, Table 8, p. 174.

¹⁸DAC, 1975 Review, Statistical Annex, Table 2, p. 195.

¹⁹For more information on this topic, see Chapter IV, Section 4 of this thesis.

transfers are made to the LDCs are important as determinants of their ultimate cost, the DAC unanimously adopted in 1965 the goal of softening the terms of assistance provided by member governments to the LDCs. The first target was that 70 per cent of each country's transfers be made available as grants. For countries that provide 30 per cent or more of their transfers as loans, three targets were set--one for interest rates, one for maturities,²⁰ and one for the grace period²¹ before the loan requires financing. The interest rate target was that 81 per cent or more of the value of the transfers should be at an annual interest rate of three per cent or less. The maturity target proposed a minimum of 82 per cent of the value of the loan commitments to mature after 25 years. The grace period target called for a weighted average grace period of seven years.²²

In 1969, concurrent with the decision to divide official assistance into two categories--ODA and other official flows--a new, more rigorous set of goals was adopted. The DAC suggested three alternative targets for its

²⁰The span of time from the date of commitment to the date of the last amortization payment.

²¹The span of time from the date of commitment to the date of the first amortization payment minus one payment period.

²²Later changed to 6.4 years for DAC statistical purposes.

members: grants should represent 70 per cent or more of a country's ODA commitments, each country should provide at least 85 per cent of its ODA so that each transaction has a minimum grant element²³ of 61 per cent, or the softest 85 per cent of each country's ODA commitments should contain an average grant element of at least 85 per cent. Furthermore, a condition of the 1969 Terms Recommendation is that the volume of ODA at qualifying terms as a percentage of GNP is not significantly below the DAC average.

Terms were also recommended by the Pearson Commission in 1969 and at UNCTAD III in 1972 which were broadly similar to the DAC's 1965 recommendations but not as hard as the 1969 recommendations. The Pearson Commission suggested the following norms for ODA loans: interest of no more than two per cent, a maturity of between 25 and 40 years, and a

²³The "grant equivalent" of ODA consists of contributions actually given as grants together with the imputed grant equivalent of current loans. The grant equivalent of loans is the difference between the face value of the loan and the discounted present value of future debt service receipts (both amortization and interest). The "grant element" is computed by expressing this dollar figure as a percentage of the face value, and is a function of the difference between the rate of interest on the loan and the rate of return which could have been obtained through alternative uses, as well as of the maturity and grace period of the loan. The calculated grant element is substantially affected by the choice of the alternative rate of return which is used for discounting purposes. A uniform rate of 10 per cent has been chosen by the DAC as an approximate indication of economic rates of return. The DAC normally uses the grant element concept to measure the concessionality or softness of loan commitments. See Appendix B for an explanation of the computation of grant element.

grace period of seven to 10 years.²⁴ At UNCTAD III it was proposed that the developed countries should either provide 80 per cent or more of their official aid in the form of grants, or provide 90 per cent of their official aid commitments as grants or as loans with an interest rate of 2.5 per cent or less, a maturity of 30 years or more, and a minimum grace period of eight years.

In 1972, the DAC adopted a new Recommendation on Terms and Conditions of Aid which superseded the 1965 and 1969 Recommendations and entered into effect on January 1, 1973. In contrast to previous Recommendations, it simply requires members to reach and maintain an average grant element in their ODA commitments of at least 84 per cent. ODA was also redefined to exclude transactions with a grant element of less than 25 per cent. The volume test introduced in the 1969 Recommendation was maintained. Hence, countries whose ODA volume as a percentage of GNP is significantly below the DAC average are not considered as having complied with the Terms Recommendation, notwithstanding their actual terms performance. The new Recommendation also takes account of the special needs of the least-developed countries by proposing an even softer target for them. ODA commitments to the 25 least-developed countries should preferably be in the

²⁴Pearson, Partners in Development, pp. 160-166.

form of grants, and the average grant element of all commitments from a given donor should either be at least 86 per cent to each least-developed country over a period of three years, or at least 90 per cent annually for the least-developed countries as a group.

In 1974, 11 DAC countries complied with the 1972 Terms Recommendation (compared to 12 in 1973). Those failing to satisfy the provisions of the Recommendation were Austria, Finland, Italy, Japan, Switzerland, and the United States.²⁵ Finland, Switzerland, and the United States would have complied if the volume of their ODA commitments had been higher. Italy did not subscribe to the 1972 Recommendation. The average grant element of 86.0 per cent achieved by the DMCs in 1974 was well above the target level and compares with 87.5 per cent in 1973. Grants accounted for 64.9 per cent of total ODA commitments in 1974. The average terms of DMC loan commitments call for an interest rate of 2.4 per cent, a grace period of 8.4 years, and a maturity of 32.0 years.²⁶

With an estimated grant element of less than 50 per cent, the terms of Soviet and Eastern European aid commit-

²⁵DAC, 1975 Review, Table VII-5, p. 135.

²⁶Ibid., Table VII-4, p. 134, and Statistical Annex, Table 18, pp. 218-219.

ments to the LDCs are far below the DAC Terms Recommendation. Grants account for only a very small proportion (less than five per cent) of their aid programmes. Soviet loans generally call for repayment over 12 years at 2.5-3.0 per cent interest, with grace periods usually limited to one year commencing after project completion or delivery of goods, and Eastern European assistance is extended on even harder terms.²⁷ The grant element of Chinese aid to the LDCs (estimated to be over 90 per cent) not only exceeds the level proposed in the 1972 DAC Recommendation, but also surpasses the average grant element of DMC aid. Grants account for about 15 per cent of Chinese aid commitments. Chinese loans are interest-free and allow repayment over 10-30 years starting after a grace period of 10-30 years.²⁸

In addition to the volume and terms of aid, there are a number of other qualitative factors which also determine the ultimate cost and effectiveness of the flow of resources to the LDCs. Four of the most important ones are: (1) aid tying, (2) local cost financing, (3) the division between project and programme aid, and (4) the proportion of bilateral and multilateral aid.

²⁷ OECD, Flow of Resources, pp. 407, 415-416; UN, World Economic Survey, 1974, Part One, pp. 176-177; USDS, Aid and Trade in 1974, p. 6.

²⁸ Fogarty, "China's Economic Relations", p. 734; OECD, Flow of Resources, p. 402; UN, World Economic Survey, 1974, Part One, p. 183; USDS, Aid and Trade in 1974, pp. 6-7.

It is generally recognized that the tying of aid to procurement in the donor country imposes many different costs on recipient countries: it requires the recipient to purchase goods from the donor at prices often substantially above those in competitive world markets; it entails administrative complexities and delays in the transfer of resources; it hampers the expansion of trade among developing countries; and the utilization of tied aid may involve imports and projects of low priority to the aid-receiving country. Accordingly, the untying of development assistance has figured prominently in the examinations of aid policies by the DAC, the UN, and other international fora. The Pearson Commission recommended that donor countries take the following actions to reduce aid tying: undertake not to intensify their tying procedures; consider the progressive untying of bilateral and multilateral aid; permit aid-financed procurement in developing countries; and suspend the provisions in aid agreements which limit the rights of recipients to invite competitive tenders.²⁹ The strategy for the Second UN Development Decade called upon developed countries to rapidly and progressively reduce the extent of tying of assistance and, to the greatest extent possible, make loans

²⁹Pearson, Partners in Development, pp. 172-175.

available for utilization by the recipient countries for the purchase of goods and services from other developing countries.³⁰ These objectives were also included among the decisions reached at UNCTAD II in 1968 and were repeated at UNCTAD III in 1972.

The DMCs have made some progress in recent years, albeit with relatively limited impact, to relax their tying procedures. In October, 1973 the DAC countries agreed to untie their contributions to multilateral institutions. In June, 1974 a number of DAC countries joined in a Memorandum of Understanding among themselves to untie their bilateral development loans in favour of procurement in developing countries. To date, 10 countries--Australia, Denmark, West Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, and the United States--have adhered to the Memorandum.³¹ The only initiative on untying that could be expected to have a significant impact on the LDCs, namely the untying of bilateral assistance on a reciprocal basis, remains to be taken, and is not in prospect for the near

³⁰UN, International Development Strategy, p. 10.

³¹Denmark, although an original signatory of the Memorandum, is still not in a position to implement it. Canada had not yet adhered to the Memorandum, but officially untied its bilateral development loans to allow procurement in developing countries in September, 1975. DAC, 1975 Review, p. 135; DAC, 1974 Review, p. 124, and Annex, pp. 191-193.

future. Almost all CPC aid to the LDCs, including even contributions to UN programmes, is fully tied to procurement in donor countries, although some triangular arrangements among the USSR and Eastern European countries have been known.³²

Most aid donors, bilateral and multilateral, follow regulations which permit financing only the foreign exchange costs of projects, leaving the costs which can be met in local currency to the borrower. The limitation of aid to the financing of the import costs of specific projects is motivated by a number of considerations. This policy is expected to encourage the mobilization of internal resources by the recipient and to enhance his interest in making the project a success. However, in many countries it encourages an uneconomic bias toward capital-intensive projects with a large foreign exchange component. A number of developing countries may also have difficulties in raising the funds required in domestic currency quite apart from the foreign exchange problem. For these reasons, the Pearson Commission recommended that donors remove regulations which limit or prevent contributions to the local costs of projects, and make a greater effort to encourage local procurement wherever

³²DAC, 1975 Review, pp. 177 and 179; OECD, Flow of Resources, pp. 402 and 416; UN, World Economic Survey, 1974, Part One, p. 176; USDS, Aid and Trade in 1974, p. 5.

economically justified.³³ The DAC also recognized the need for a more flexible attitude on local cost financing, and suggested that policies covering local costs should be liberalized so as to open the way for a number of projects not previously considered possible by either recipients or donors.³⁴

While the principle of providing assistance primarily for direct foreign exchange needs remains generally applied, most DMC donors are now prepared to participate in the financing of local currency costs where the need for it can be clearly demonstrated, such as in the case of the poorer developing countries. Most DMCs normally only finance a given proportion of local cost financing needs of a given project. However, a few donors (such as Belgium, France, West Germany, the Netherlands, Norway, and Sweden) are prepared to finance the totality of the project costs, making their aid available for both external and domestic procurement depending on the recipient country.³⁵ As a general rule, the USSR finances only the foreign currency portion of its aid projects, although exceptions have been made in favour of the least-developed

³³Pearson, Partners in Development, pp. 176-177.

³⁴DAC, 1971 Review, p. 57.

³⁵OECD, DAC, Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee: 1973 Review (Paris: OECD, 1973), pp. 61-65.

countries in Africa. The PRC, on the other hand, takes a much more flexible attitude; the Chinese usually provide long-term financing to cover the local costs of their aid projects, using the proceeds of sales of Chinese consumer goods and commodities on the recipient country's market.³⁶

Most developed countries prefer their aid programmes to take the form of project aid because it can be easily supervised and allows the donor to identify its funds and check on the technical efficiency with which they are used. Furthermore, some donors may be interested in exporting certain types of equipment, or may desire the prestige, and associated political benefits, from identification with well-known projects.

However, as pointed out by the Pearson Commission, if aid is to be deployed so as to maximize its contribution to development, there is no "a priori" case for limiting it to project aid.³⁷ In a number of recipient countries, aid funds would be more effectively used if a larger share of aid were supplied in the more flexible form of programme aid.³⁸

³⁶DAC, 1975 Review, p. 175; Fogarty, "China's Economic Relations", p. 733; OECD, Flow of Resources, pp. 402 and 415; USDS, Aid and Trade in 1974, p. 7.

³⁷Pearson, Partners in Development, pp. 177-179.

³⁸The term "programme aid" is used here to refer to all types of non-project aid. Of course, there is a wide range of aid forms which fall somewhere between "pure" project aid and "pure" programme aid.

More programme aid would be particularly effective in a country which produces domestically a high proportion of the capital goods needed for its investment programme, but requires an increasing volume of other imports to sustain growth. It would also be useful when underutilization of existing industrial capacity is due to an inability to finance imports of needed raw materials. The Pearson Commission recommended that donor countries adopt the forms of aid to the needs and level of development of the recipient country and recognize the great value, in many cases, of more programme aid.³⁹ The DAC has suggested that its members expand the volume of programme aid as an alternative to project aid, whenever there is an assurance that this can be effectively used.⁴⁰ At UNCTAD III it was recommended that consideration should be given to increasing the share of non-project aid in total flows to developing countries to 40 per cent by 1980.

The recognition of the genuine needs for programme aid in a number of cases has prompted practically all DMCs, in spite of their preference for project aid, to include some programme loans. The share of non-project assistance in the aid programmes of the DMCs increased from 19 per cent

³⁹Pearson, Partners in Development, pp. 177-179.

⁴⁰DAC, 1971 Review, p. 57.

in 1973 to 21 per cent in 1974.⁴¹ About 90 per cent of Soviet and Eastern European aid and two-thirds of Chinese aid is tied to projects.⁴²

Despite the growth of multilateral aid agencies in the 1960s, bilateral assistance remains dominant in the aid programmes of the developed countries. There are many reasons for this preference for bilateral channels: responsibilities toward former colonial territories and other historic ties, political or economic motives, and the more liberal procurement regulations of most multilateral institutions. In addition, some donors believe that bilateral aid is likely to make a more efficient contribution to development, or that international organizations lack flexibility and innovation; others feel that at least some multilateral agencies are unduly dominated by the "wrong" countries, or that they are following erroneous aid philosophies and need better programming and administration. However, multilateral agencies are usually in a better position to assure an equal geographic distribution of aid flows and to co-ordinate aid strategy at the country level. Furthermore, many large integrated development projects

⁴¹DAC, 1975 Review, Chart 1, p. 133; DAC, 1974 Review, Chart 1, p. 119.

⁴²DAC, 1975 Review, pp. 177 and 179; Fogarty, "China's Economic Relations", p. 734; OECD, Flow of Resources, pp. 400, 407, and 413; UN, World Economic Survey, 1974, Part One, pp. 176 and 183; USDS, Aid and Trade in 1974, pp. 6-7.

require a depth of expertise and financial resources which even the largest bilateral aid donors do not possess. For these and other reasons, the Pearson Commission recommended that donor countries increase grants and capital subscriptions for multilateral development assistance programmes to a minimum of 20 per cent of ODA by 1975.⁴³ The strategy for the Second UN Development Decade called upon developed countries to increase to the fullest extent possible the volume of resources made available through multilateral institutions for financial and technical assistance.⁴⁴

By 1974, multilateral assistance had risen to 27 per cent of DMC aid programmes (see Table 1 above). The 20 per cent target was reached two years earlier. The CPCs, on the other hand, continue to extend almost all of their aid on a purely bilateral basis, although two UN organizations--UNDP and UNICEF--have received small amounts from them. In 1973, the members of Comecon (Council for Mutual Economic Assistance) took steps to multilateralize their aid activities by establishing a special Development Aid Fund, which will be administered by the Moscow-based International Investment Bank and will extend loans with maturities up to 15 years at low rates of interest to the

⁴³Pearson, Partners in Development, pp. 213-215.

⁴⁴UN, International Development Strategy, p. 10.

LDCs, and a special scholarship fund, which is administered by the Comecon Secretariat and finances students and trainees from developing countries in Soviet and Eastern European academic institutions.⁴⁵

2. Foreign Trade in the World Economy

The flow of aid from the developed countries to the LDCs is not the only source of financing for development. The opportunity to expand participation in world trade is also important. The LDCs rely on a steady increase in their export earnings to finance the imports needed for their economic growth. Thus, the developed countries can contribute to the international development effort not only by increasing their aid to the LDCs, but also by making their domestic markets more easily accessible to products from the developing countries

The last quarter-century was a period of rapid and widespread growth in world trade, with exports (at current prices) increasing at an average annual rate of about 11½ per cent--from 61.1 billion dollars in 1950 to 842.5 billion dollars in 1974 (see Table 3). The most dynamic component of the trade was enjoyed by the developed countries. The exports

⁴⁵DAC, 1975 Review, pp. 175-176; OECD, Flow of Resources, pp. 400 and 413; UN, World Economic Survey, 1974, Part One, pp. 176 and 178-179; and USDS, Aid and Trade in 1974, p. 5.

TABLE 3
 WORLD TRADE BY REGION,^a 1950-1974
 (Millions of US Dollars)

Year	Exports				Imports			
	Total	DMCs	CPCs	LDCs	Total	DMCs	CPCs	LDCs
1950	61,100	37,200	4,930	18,930	64,100	41,600	5,000	17,500
1951	82,400	52,000	6,320	24,100	87,500	56,900	6,500	24,100
1952	80,600	52,700	7,020	20,900	87,400	56,000	7,000	24,400
1953	82,700	53,700	7,900	21,100	84,300	55,000	7,800	21,500
1954	85,900	55,200	8,600	22,100	88,600	57,300	8,700	22,600
1955	93,800	60,700	9,370	23,700	98,800	65,200	9,200	24,400
1956	103,900	68,900	10,140	24,900	108,900	72,400	10,200	26,300
1957	112,000	75,300	11,300	25,400	120,000	78,700	11,500	29,800
1958	108,100	71,200	12,100	24,800	114,100	73,700	12,600	27,800
1959	115,700	75,700	14,200	25,800	121,400	79,300	14,700	27,400
1960	128,000	85,700	15,000	27,300	135,500	89,200	16,100	30,200
1961	134,000	90,500	15,700	27,800	141,000	93,400	16,500	31,100
1962	141,500	95,100	17,400	29,000	149,800	100,600	17,700	31,500
1963	154,100	103,900	18,700	31,500	162,500	110,700	18,900	32,900
1964	172,500	117,600	20,300	34,600	182,000	124,800	21,000	36,200
1965	186,400	128,300	21,700	36,400	197,500	136,900	22,600	38,000
1966	203,800	141,700	23,200	38,900	215,700	151,200	23,700	40,800
1967	215,000	150,000	25,200	39,800	227,200	159,700	25,600	41,900
1968	239,700	168,700	27,300	43,700	252,400	179,300	27,700	45,400
1969	273,600	194,500	30,100	49,000	286,500	206,200	30,400	49,900
1970	313,400	224,700	33,400	55,300	328,600	237,600	34,700	56,300
1971	350,700	251,600	36,400	62,700	365,300	264,500	37,500	63,300
1972	417,100	298,200	43,200	75,700	429,200	312,100	45,900	71,200
1973	577,300	407,900	57,800	111,600	588,400	429,800	62,100	96,500
1974	842,500	542,800	70,900	228,800	845,400	611,500	78,700	155,200

TABLE 3--CONTINUED

Sources: UN, Department of Economic and Social Affairs, Yearbook of International Trade Statistics, 1974, Vol. I (New York: UN, 1975), Special Table A, pp. 16-23; UNCTAD, Handbook of International Trade and Development Statistics, 1972 (New York: UN, 1972), Table 1.1, pp. 2-9, and Table 1.2, pp. 10-19.

^aExcluding the trade of the following countries with one another: the PRC, North Korea, Mongolia, and North Vietnam. Exports are shown f.o.b. and imports are shown c.i.f.

of the DMCs increased from 37.2 billion dollars in 1950 to 542.8 billion dollars in 1974, representing an average annual rate of increase of 12 per cent. The exports of the CPCs increased from 4.9 billion dollars in 1950 to 70.9 billion dollars in 1974, representing an average annual rate of increase of $11\frac{1}{2}$ per cent.

The exports of the LDCs, on the other hand, increased at an average annual rate of only 11 per cent--from 18.9 billion dollars in 1950 to 228.8 billion dollars in 1974. As a result, the share of the LDCs in total world exports decreased from 31 per cent in 1950 to 27 per cent in 1974. However, these averages conceal the significant expansion of LDC exports in recent years due to exchange rate adjustments, unprecedented increases in the prices of oil and other commodities, and continuing strong world demand for raw materials. For example, the doubling in the value of LDC exports in 1974 increased their share of world exports from only 19 per cent in 1973 to more than one-quarter in the following year.

Not only has the long-term growth rate of LDC exports been less than that for the DMCs and the CPCs, but the trade problem of the LDCs has been aggravated by a high degree of concentration in origin, destination, and composition and, partly in consequence, a wide disparity in performance. Measured in real terms, LDC exports of goods and services increased at 7.2 per cent a year in the 1960s, but

the range of export performance among the developing countries was wide. At the one extreme, almost a fourth of the total achieved an export growth rate of over nine per cent a year. These were mostly small, higher-income countries: they accounted for 11 per cent of the total population and about 14 per cent of gross production. At the other extreme, just under a fifth of the developing countries registered an export growth rate in the 1960s of less than three per cent a year. These included some of the large, low-income countries: they accounted for 42 per cent of the total population and 21 per cent of gross production.⁴⁶

Furthermore, over half the export earnings of the developing countries during the 1960s continued to come from seven commodities--petroleum, coffee, cotton, copper, sugar, rubber, and vegetable oils and seeds. LDC exports of manufactured goods increased at over 17 per cent a year (at current prices) in the 1960s. Yet in 1970 the LDCs accounted for only six per cent of world trade in manufactured goods, and manufactured goods accounted for only 16 per cent of all LDC commodity exports. In addition, the range of these goods remained rather limited: only three categories--textiles and clothing, food products, and wood products--accounted for 60 per cent of the total at the outset of the 1960s and only

⁴⁶UN, Department of Economic and Social Affairs, The International Development Strategy: First Over-All Review and Appraisal of Issues and Policies, Report of the Secretary-General (New York: UN, 1973), p. 43.

slightly less at the end. Geographic concentration also remained high: most LDCs continued to ship the great bulk of their exports to a very small number of destinations. In 1969, three-quarters of LDC exports of manufactured goods originated in 10 countries, and the six largest of these accounted for almost three-quarters of the increment in LDC trade in manufactured goods in the 1960s.⁴⁷

The measure most commonly used to judge the amenability of the trade policies of the developed countries to the needs and purposes of the developing countries are the rate of growth of imports from the LDCs in relation to the rate of growth of total imports and to the rate of growth of exports to the LDCs. Clearly, these ratios must be interpreted with caution since the volume of import purchases depends on a number of factors: on the domestic situation in the developed countries and the economic relations among themselves; on the consequences of random events such as the vagaries of the weather; and on the export effort of the developing countries; as well as on government policies affecting imports from the developing countries. Nevertheless, they furnish a convenient set of benchmarks against which to assess the performance of the developed countries as providers of foreign exchange to the developing countries through trade.

⁴⁷ Ibid., pp. 43-44.

Imports into the DMCs from the LDCs increased faster than exports to the LDCs: imports went up from 17.1 billion dollars in 1955 to 81.4 billion dollars in 1973, representing an average annual rate of increase of nine per cent (see Table 4). This compares with an $8\frac{1}{2}$ per cent rate of growth for exports from the DMCs to the LDCs. Total DMC imports, however, increased annually at an average rate of about 11 per cent over the same period of time, resulting in a decrease in the LDC share of total imports into the DMCs from 28 per cent in 1955 to 20 per cent in 1973.

Imports into the CPCs from the LDCs increased faster than total CPC imports: imports from the LDCs went up from 0.6 billion dollars in 1955 to 4.8 billion dollars in 1973, representing an average annual rate of increase of $12\frac{1}{2}$ per cent (see Table 5). This compares with an 11 per cent rate of growth for total CPC imports, resulting in an increase in the LDC share of total imports into the CPCs from seven per cent in 1955 to nine per cent in 1973. Exports from the CPCs to the LDCs, however, increased annually at an average rate of 15 per cent during the period.

From the standpoint of encouraging imports from the LDCs, the performance of the developed countries has been more notable for its efforts than for its achievements. While many of the developed countries promised to undertake efforts to make their domestic markets more easily accessible

TABLE 4
 DMC TRADE WITH THE LDCs,^a 1955-1973

Year	Exports		Imports	
	Millions of US Dollars	Per Cent of Total Exports	Millions of US Dollars	Per Cent of Total Imports
1955	16,730	28	17,100	28
1956	19,010	28	18,280	27
1957	21,540	29	18,100	25
1958	20,480	29	17,890	26
1959	19,880	26	18,790	25
1960	21,800	26	19,780	24
1961	22,300	25	19,800	23
1962	21,830	23	20,770	22
1963	23,040	22	22,770	22
1964	25,270	22	24,930	22
1965	26,990	21	26,110	21
1966	29,540	21	28,080	20
1967	30,280	20	29,460	20
1968	33,690	20	32,750	20
1969	37,020	19	35,880	19
1970	41,910	19	40,550	18
1971	47,140	19	45,710	19
1972	53,470	18	55,730	19
1973	73,720	18	81,430	20

Sources: UN, Department of Economic and Social Affairs, Yearbook of International Trade Statistics, 1974 (New York: UN, 1975), Special Table B, pp. 24-54; UNCTAD, Handbook of International Trade and Development Statistics, 1972 (New York: UN, 1972), Table 3.1, pp. 46-61.

^aExports and imports are shown f.o.b.

TABLE 5
CPC TRADE WITH THE LDCs,^a 1955-1973

Year	Exports		Imports	
	Millions of US Dollars	Per Cent of Total Exports	Millions of US Dollars	Per Cent of Total Imports
1955	715	8	580	7
1956	800	8	565	6
1957	920	8	760	7
1958	1,130	9	850	7
1959	1,050	7	980	7
1960	1,395	9	1,220	8
1961	2,030	13	1,490	10
1962	2,600	15	1,560	9
1963	2,700	14	1,670	9
1964	2,905	14	1,940	10
1965	3,205	15	2,390	11
1966	3,620	16	2,340	11
1967	3,810	15	2,150	9
1968	4,035	15	2,240	9
1969	4,630	16	2,620	9
1970	5,180	16	3,150	10
1971	5,310	15	3,040	9
1972	6,110	14	3,460	8
1973	8,820	15	4,790	9

Sources: UN, Department of Economic and Social Affairs, Yearbook of International Trade Statistics, 1974 (New York: UN, 1975), Special Table B, pp. 24-54; UNCTAD, Handbook of International Trade and Development Statistics, 1972 (New York: UN, 1972), Table 3.1, pp. 46-61.

^aExports and imports are shown f.o.b.

to products from the LDCs, most of them continued to impinge in one way or another on the inflow of imports from the LDCs. The two methods of restricting imports that merit special scrutiny are production policies, which affect the nature and extent of domestic competition by governing the domestic production of the commodity concerned and substitutes for it, and trade policies, which determine the conditions of entry into the local market and affect the price of imported goods.

Production policies are practised more in the CPCs, which rely only to a limited extent on trade policy instruments, than in the DMCs. Indeed, the plans of the CPCs tend to include production targets for many of the commodities exported by the LDCs and targets for an import component of total supply. The very nature of the centrally planned system requires that the level and composition of foreign trade be kept under control to ensure that they fit into the pattern of domestic consumption. Thus, although imports from the LDCs are the result of various types of trading arrangements including barter deals and "ad hoc" transactions, the bulk of the flow is based on bilateral trade agreements containing short-term quotas and long-term targets. The modifications of the foreign trade organizations in some of the CPCs near the end of the last decade, while preserving the state monopoly, were designed in part to expose domestic

enterprises to a greater degree of competition from abroad. This resulted in a significant expansion in the range of commodities imported from the LDCs. However, the changed composition of LDC imports also reflects the difficulties experienced by the CPCs in expanding their primary production in line with the rapid growth in industry and in personal incomes. Protection of the domestic production of importable commodities still exists in the CPCs and may result in a stimulus to the output of certain commodities to the disadvantage of LDC exporting countries.

The closest parallel to such production policies in the DMCs is that presented by some of the nationalized industries. The deliberate running down of activity in the coal mines of the United Kingdom in the 1960s, for example, represented a policy of favouring imports of petroleum from the LDCs. Furthermore, in many of the DMCs, measures that are tantamount to production policies have tended to evolve in the agricultural sector as a concomitant of efforts to sustain farm incomes. In the United States, for example, the management of supply has entailed a combination of price supports for particular commodities and output quotas for individual farms.

Despite some backsliding in recent years, the trade policies of the past 25 years have been characterized in general by a strong liberalizing trend. Although the main

impact of this trend was felt by the developed countries, the trade of the LDCs being less affected, the liberalizing forces did exert some influence on the imports into the developed countries from the LDCs. The liberalizing forces which had the greatest potential effect on the trade of the LDCs were the reduction of tariffs and other trade barriers resulting from the various "rounds" of negotiations within the framework of the General Agreement on Tariffs and Trade (GATT), and the implementation of the Generalized System of Preferences (GSP) by the major developed countries.

The GATT is a multilateral treaty which lays down a code of conduct for international trade; it has been accepted by nations responsible for most of the world's trade. Since it entered into force in 1948, six major negotiating conferences in GATT have brought about far-reaching reductions in tariffs and other trade barriers. The most recent of these negotiations to be completed was the Kennedy Round of 1964-1967. The Kennedy Round resulted in at least three changes that were of potential advantage to the LDCs. The first consisted of the various tariff concessions which were agreed to during the negotiations and which reduced the industrial tariffs of most developed countries by about one-third.⁴⁸

⁴⁸UN, Department of Economic and Social Affairs, Implementation of the International Development Strategy: Papers for the First Over-all Review and Appraisal of Progress during the Second United Nations Development Decade, Vol. II (New York: UN, 1973), p. 3.

The second change was the initiation of a movement to re-examine tariff structures to see where they might be amended in ways that would take better account of items that come solely or mainly from the LDCs. The third was the establishment of the concept of non-reciprocity, recognizing that in trade negotiations gross inequalities in the bargaining strength of the parties might be mitigated by an abrogation of the convention that each concession required some "quid pro quo" from the countries that might benefit. During the tariff negotiations special consideration was given to the LDCs by extending the cuts in the "most favoured nation" rates to the LDCs on a non-reciprocal basis.

The current GATT trade negotiations (Tokyo Round), in aiming to achieve a higher degree of international trade liberalization, will be of importance in enlarging export markets for developing countries. The Tokyo Round was launched formally in Tokyo in 1973 and represents the first world-wide trade negotiations since the Kennedy Round ended in 1967. The Tokyo Declaration, approved on September 14, 1973, lays out the goals of the negotiations, including the intended benefits for developing countries: "...a substantial increase in their foreign exchange earnings, the diversification of their exports, the acceleration of the rate of growth of their trade, taking into account their develop-

ment needs, an improvement in the possibilities for these countries to participate in the expansion of world trade, and a better balance as between developed and developing countries in the sharing of the advantages resulting from this expansion, through, in the largest possible measure, a substantial improvement in the conditions of access for the products of interest to the developing countries and, wherever appropriate, measures designed to attain stable, equitable and remunerative prices for primary products."⁴⁹ Actual GATT negotiations started in Geneva on February 11, 1975, following the approval of the United States Trade Reform Act, which authorized US participation in these negotiations. At the Rambouillet Summit in November, 1975, six major developed countries reaffirmed their support for the Tokyo Declaration principles and set 1977 as the target date for the completion of the negotiations.

The introduction of the GSP in the 1960s represented a major departure from two of the main principles underlying earlier trade relations, namely, reciprocity and non-discrimination: the tariff cuts were limited to developing countries and they were accorded unilaterally, without any reciprocity. The basic philosophy behind the system was that, through non-reciprocal tariff reductions on products

⁴⁹GATT, Declaration of Ministers Approved at Tokyo on 14 September 1973, MIN (73) 1, Tokyo, September 14, 1973, p. 2.

originating only in the developing countries, the developed countries could help the developing countries to better their competitive position for their non-traditional industrial exports, which would have the dual effect of promoting industrialized growth within these countries and providing them with the foreign exchange needed to finance their economic development. An additional concept of the GSP was that this would assist developing countries in their efforts to diversify their exports so that they would not be affected by wide swings in the prices of their raw material exports.

After years of negotiations, starting from UNCTAD I in 1964, a number of individual preferential schemes had been adopted by the end of 1972: USSR (1965), Australia (1966), European Economic Community (EEC), Japan, and Norway (1971), and Austria, Bulgaria, Czechoslovakia, Denmark, Finland, Hungary, Ireland, New Zealand, Sweden, Switzerland, and United Kingdom (1972). The latest schemes to be implemented are those of Canada (1974) and the United States (1975).

The trade liberalizing forces of the last 25 years weakened perceptibly in the 1970s. The reasons for this backsliding are many; they include the troublesome coexistence of unemployment and inflation at historically high rates in many developed countries, the breakdown of the Bretton Woods monetary arrangements, and the extraordinary rise in prices of petroleum and other internationally traded commodities.

The combined effect of these events was an arousal of protectionist sentiments in many countries, reduced confidence in the international monetary system, and greater emphasis on domestic self-sufficiency. Other events accentuated the problems: the enlargement of the EEC raised fears that exports from the developing countries would be adversely affected by the accession of three more countries to the Common Market, and the increased use of non-tariff barriers as trade policy instruments threatened to reduce the effectiveness of the tariff concessions negotiated during the Kennedy Round.

In addition, the GSP has been relatively limited in scope. Although most of the developing countries are covered by the preferential schemes, the lists of beneficiaries under the schemes are by no means uniform. Moreover, the product coverage usually excludes certain "sensitive items", notably textile and leather products, and in some cases there are even ceilings on the volume of imports eligible for preferential treatment. Also, it is possible that the Tokyo Round will result in large tariff cuts on industrial goods. This would have the effect of substantially reducing the benefit to the LDCs of tariff preferences under the GSP.

3. Other Features of the External Environment

The external environment is more than a simple sum of the relevant foreign aid and trade policies of the developed

countries. It also comprises the multitude of institutional and policy developments that affect the quantity and quality of the flow of resources to developing countries. All that is attempted in the present context is a brief description of some of the important new international initiatives, designed to help the developing countries, which have emerged in recent years, namely: (1) the SDR/Aid link, (2) the World Bank "Third Window", (3) the IMF Trust Fund, (4) the IMF Oil Facility, (5) the International Fund for Agricultural Development, (6) the Lomé Convention, and (7) the UNCTAD integrated programme for commodities.⁵⁰

In response to the problem of inadequate international liquidity, a system of new international monetary reserve assets, called Special Drawing Rights (SDRs), was created by the International Monetary Fund (IMF) in the late 1960s. The new facility entitled each participating country to use its SDRs to acquire an equivalent amount of other

⁵⁰For more information on these and other features of the external environment, see: Commonwealth Secretariat, Towards a New International Economic Order, A Further Report by a Commonwealth Expert's Group (London: Commonwealth Secretariat, 1976), pp. 9-22, and 26-32; DAC, 1975 Review, pp. 20-27, 46-48, and 93-97; DAC, 1974 Review, pp. 25-33, and 47-60; OECD, DAC, Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee: 1972 Review (Paris: OECD, 1972), pp. 19-22; UN, Implementation of the International Development Strategy: Papers for the First Over-all Review and Appraisal, Vol. II, pp. 6-9; UN, World Economic Survey, 1969-1970, pp. 170-174; World Bank, Annual Report 1975 (Washington, D.C.: World Bank, 1975), pp. 5-20.

convertible currencies, primarily when it is faced with balance of payments difficulties or adverse developments in its official reserves. The concept of linking international liquidity and development assistance first arose in an international forum when a group of experts commissioned by UNCTAD to study international trade and development issues tabled a report on the subject in 1965. Since that time, the proponents of the SDR/Aid link have argued in various international fora that the issuance of SDRs by the IMF should be designed to effect a transfer of real resources from developed countries to developing countries, and thereby foster the economic development of the latter. This would be accomplished by allocating a relatively greater share of SDRs to developing countries while reducing the share which would otherwise be granted to developed countries. However, the majority of the developed countries have continued to oppose the SDR/Aid link proposal on the grounds that it might prejudice the prospects of achieving good international monetary arrangements and that, in order to get more aid, the developing countries might force the issuance of more SDRs than the world liquidity situation requires, thus feeding inflation.

A new lending facility, known as the "Third Window", was established by the World Bank in 1975 with the aim of extending additional development assistance on immediate terms. It began operations in 1976. The interest rates on

Third Window loans are midway between the loan rates extended by the International Development Association (IDA)-- $3/4$ per cent service charge--and the loan rates extended by the International Bank for Reconstruction and Development (IBRD)--currently about $8-8\frac{1}{2}$ per cent. Eligibility criteria favour countries with per capita incomes of less than 375 dollars. The softer terms are made possible by the existence of an interest subsidy fund. The World Bank plans to lend up to one billion dollars of assistance through the Third Window during the first year of its existence.

The United States proposed the creation by 1976 of a Trust Fund of up to two billion dollars to be administered by the IMF. Sales of gold held by the IMF would be used to provide resources for half of this total, supplemented by other contributions, especially from the oil-producing countries. The Trust Fund would provide additional highly concessional resources to meet the balance-of-payments needs of low-income developing countries. The agreement by the IMF's Interim Committee on August 31, 1975 to authorize the sale of one-sixth of the IMF's gold holdings for the benefit of developing countries paved the way for the provision of part of the Trust Fund's resources. In June, 1976, the IMF began to auction 25 million ounces of gold over a four-year period. Proceeds from the auction of 17.5 million ounces of the gold will go into the IMF Trust Fund; profits on the remaining 7.5 million ounces will be distributed directly to

the developing countries.

The IMF Oil Facility was established in June, 1974 to provide financing to member countries facing balance-of-payments difficulties due to the steep increase in the price of oil. The IMF made arrangements in 1974 to borrow about three billion SDRs⁵¹ under the newly-created Facility, largely from OPEC countries, in order to help both developed and developing countries finance their increased oil import bills. Drawings from the 1974 Facility amounted to about 2.6 billion SDRs, of which roughly 40 per cent was accounted for by non-oil-producing developing countries. The IMF's Interim Committee, meeting in January, 1975, agreed that the Oil Facility should be renewed and that as much as five billion SDRs should be borrowed for the Oil Facility in 1975 in addition to any amounts remaining from the 1974 Oil Facility. The Committee also agreed that drawings under the 1975 Facility would be subject to stricter policy conditionality in respect of medium-term balance-of-payments adjustment and measures to conserve oil or develop alternative sources. Drawings by developing countries under the 1975 Oil Facility amounted to 505 million SDRs at the end of August, 1975.

⁵¹One SDR is equivalent in value to 1/35th of an ounce of gold at the official price. Prior to May 8, 1972 one SDR equalled one US dollar. From May 8, 1972 to October 18, 1973 one SDR was equivalent to 1.08571 US dollars. From October 18, 1973 to July 1, 1974 one SDR was equivalent to 1.20635 US dollars. Since the latter date the value of the SDR in terms of US dollars has fluctuated from day to day. At the end of January, 1976 one SDR equalled 1.16875 dollars.

Progress has been made by the IMF toward the establishment of a Subsidy Account to help the "most severely affected" countries meet the cost of drawings under the renewed Oil Facility. The basic intention is to reduce the effective interest rate payable by these countries by five percentage points. A special account of some 312 million SDRs has been set up for this purpose; by September, 1975 around one-half of this sum had been subscribed.

The establishment of an International Fund for Agricultural Development (IFAD) was proposed by a group of developing countries, led by Arab OPEC members, at the World Food Conference in November, 1974. The aim of the Fund is to mobilize additional external resources from DAC and OPEC countries to help finance projects in developing countries, primarily for increasing agricultural production. The Resolution adopted at the UN Seventh Special Session in September, 1975 called upon all countries in a position to do so to pledge, on a voluntary basis, substantial contributions to IFAD in order to enable it to come into being by the end of 1975, with initial resources of 1.2 billion dollars. Several DAC countries have indicated firm support for IFAD on condition that the initial resources reach a minimum of one billion dollars--about half of the contributions to come from DAC countries and the remainder from OPEC countries.

Signed on February 28, 1975 between the EEC and 46 African, Caribbean, and Pacific countries, the Lomé Convention

is an important response to the broader aid and trade interests of the developing countries. It is an outgrowth of the earlier Yaoundé and Arusha Conventions, and combines a package of trade, aid, and technical measures addressed to the needs of developing countries for more integrated assistance with their development programmes. Importantly, the Lomé Convention is considered a model for treating economic relations between developed and developing countries. Over a five-year period, aid will be expanded from over one billion dollars under the previous Yaoundé Agreement to over four billion dollars. The trade part of the agreement provides for duty-free access to the markets of the European industrial countries, but effective increases in trade will depend on the associated developing countries increasing their production and improving marketing arrangements. The Lomé Convention also includes a technique to help stabilize export incomes for developing country suppliers through a 450 million dollar scheme known as STABEX, and provides for consultation and technical help with the industrial plans of associated developing countries.

The integrated programme for commodities, which was recommended by the Secretary-General of UNCTAD and was a major topic at UNCTAD IV in Nairobi in May, 1976, represents a comprehensive attack on the commodity problem. The programme calls for: (1) the establishment of a "common fund" for the financing of buffer stocks; (2) the setting up of a

series of buffer stock arrangements; (3) the negotiation of other measures (e.g. supply management measures by producers and multilateral trade commitments by both consumers and producers) necessary for the attainment of the objectives of the programme within the framework of international commodity agreements; and (4) improved compensatory financing for the maintenance of stability in export earnings. Its primary objectives are to reduce excessive fluctuations in commodity prices and supplies, to establish and maintain the real purchasing power of commodities sold internationally (via "indexation"), and to assure access to supplies of primary commodities for industrialized importing countries and access to the markets of developed countries for commodity exporting countries. The key elements of the proposal are the common fund and a series of buffer stocks linked to commodity agreements. A common fund would finance buffer stocks (by lending to individual commodity organizations) involving 10 "core" commodities--coffee, cocoa, tea, sugar, cotton, rubber, jute, hard fibres, copper, and tin--of major export interest to developing countries. The overall cost of the common fund is estimated at six billion dollars. The Resolution adopted at UNCTAD IV asked the Secretary-General of UNCTAD to open negotiations on a common fund by March, 1977, and to initiate preparatory meetings for negotiations on individual commodity agreements beginning in late 1976.

CHAPTER II

THE INTERNAL ENVIRONMENT: CHINA'S ECONOMY AND FOREIGN TRADE

The internal environment includes the actual economic results which have occurred in China since the establishment of the People's Republic in 1949, and the economic goals and priorities pursued by the Chinese economic authorities during this period. Section 1 provides an overview of the two main aspects of the internal environment--China's economy and foreign trade. Chinese economic policy has fluctuated widely between 1949 and the present day. For the period as a whole, however, China's economic growth has been strong but erratic. Chinese foreign trade, a small but integral part of the centrally planned economy, has followed closely the trends in the rest of the economy. Sections 2-7 divide the first quarter-century of the PRC's history into six distinct economic periods and take them in turn, describing the policies and results that have characterized China's economy and foreign trade in each period.

1. Main Features of China's Economy and Foreign Trade

a. The Chinese Economy

Since the founding of the People's Republic of China in 1949, the general economic goal of the Chinese Government has been the expansion and modernization of China's economy in directions that bolster the country's international military and political strength. In pursuit of this overriding goal, priorities in the allocation of economic resources have prescribed the following: rapid growth in military-industrial capacity and output, provision of the minimum amount of consumer goods consistent with productive efficiency and popular morale, and mastery of modern technology through large-scale absorption of foreign technology and a massive programme for scientific-technical education. Accordingly, the PRC has actively pursued economic policies of rapid military-industrial expansion, national self-sufficiency, emphasis on the agricultural sector, and agricultural collectivization.

The vigorous drive to expand military-industrial capacity and output has been the most conspicuous of China's economic policies, and has absorbed the resources available to the economy over and above those needed for the minimum maintenance of the population. This drive has for the most part been successful, although the authorities overextended the economy during the Leap Forward and, to a lesser extent, Cultural Revolution periods. For instance, China's steel

production increased from less than two million tons in 1952 to over 20 million tons in 1974, and production of crude oil increased from less than two million metric tons in 1957 to more than 65 million metric tons in 1974.¹ In two and a half decades, China has achieved a remarkable expansion of both the general industrial base and the specialized branches of the armaments industry.

Industrial policy dictated that industrial bases be developed in widespread provincial centres away from the old Manchurian and coastal centres in order to decrease vulnerability to military action and to modernize China's interior regions. This policy is hardly unique: most industrial nations typically have experienced a gradual transition from old to new centres of production.² In the 1970s, the most spectacular expansion of industry was occurring in the interior province of Szechwan where electric power capacity, basic industry, the armaments industry, and the rail system were all benefiting from a huge investment programme.

The PRC has maintained an ambitious array of military

¹Arthur G. Ashbrook, Jr., "China: Economic Overview, 1975", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), pp. 23 and 32.

²In Canada, for example, the Government established in 1969 a federal department exclusively concerned with the development of industrial growth centres in economically depressed areas of the country.

programmes which have used a substantial portion of China's economic resources. Chinese military spending accounted for "less than 10 per cent" of GNP in 1974, compared to six per cent for the USSR and six per cent for the United States.³ Weapons-related costs impinge more directly and heavily on the Chinese economy than do costs related to military personnel. Manpower requirements for defence represent a negligible net drain on resources because only one out of 10 males in each age class is selected for service, and because the People's Liberation Army grows much of its food, furnishes a great deal of manpower to the civilian economy at harvest time, and supports major construction projects. In contrast, direct military requirements, such as weapons procurement and construction of military facilities, have been a considerable drain on heavy industrial and technological resources, but they have been moderate enough to permit substantial growth in general industrial capacity. In the 1970s, China has moved into the production of aircraft, submarines, missiles, and other weapons of its own design. Nevertheless, the PRC's military establishment remains strongest in its frugally maintained ground forces, which give it a formidable capacity for in-depth defence of its territory.

³Sydney H. Jammes, "The Chinese Defense Burden, 1965-1974", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), Table 1, p. 466.

The policy of attaining economic self-sufficiency might be termed a partial failure. In the 1950s, China entered into agreements with the USSR to supply approximately 300 modern industrial plants, which would have given the Chinese a tremendous push toward self-sufficiency by the end of three five-year plans (1953-1967). The orderly expansion of industrial capacity, however, was interrupted by the Leap Forward attempt at instant industrialization. The abrupt withdrawal of the Soviet technicians in mid-1960, when only half of the 300 plants were completed, crushed any hopes for self-sufficiency over the near term. In the 1960s, China turned to Japan and Western Europe for material and technical support, but the political turmoil of the Cultural Revolution again postponed prospects for self-sufficiency by reducing the flow of outside support and closing down the system of technical education for four years. In short, much of China's military-industrial success to date has rested on foreign assistance--on plants erected from Soviet blueprints, on production of Soviet-model weapons, and on machinery imported from the DMCs or copied from DMC prototypes. However, the policy of economic self-sufficiency was an unqualified success in one important dimension: the Chinese have no long-term

foreign debt, in contrast to many of the LDCs (such as India,⁴ Pakistan, Indonesia, and Egypt) which are staggering under a heavy burden of external debt.

As a corollary to the vigorous expansion of military-industrial activities, the original policy toward agriculture stipulated a slower expansion without the boost of large-scale

⁴India is the most suitable candidate for a yardstick against which the overall performance of the Chinese economy can be measured. The two countries readily lend themselves to comparison: India approaches China in population and shares with it a high degree of economic backwardness, and both countries have largely agricultural economies, which were at similar stages of economic development in 1949. Foreign aid has provided India with critical foreign exchange and technical assistance, without which industrial development would have been greatly impeded. Likewise, without Soviet aid and trade, Chinese industrialization would scarcely have been possible. There, the similarity ends: China and India have employed two diverse economic systems (although both stress economic planning) to achieve the same goal, viz. the transformation of their countries into modern industrial economies. Furthermore, India has received far greater amounts of foreign aid than China, and a large proportion of the debt incurred for developmental purposes by India is still outstanding, whereas China had virtually liquidated its foreign debt by 1965. Despite an enormous potential for economic research, only a handful of studies have dealt with comparisons of economic growth in China and India. For more information on this subject, the reader is referred to the following studies: K.I. Chen and J.S. Uppal, eds., India and China: Studies in Comparative Development (New York: Free Press, 1971); Nai-Ruenn Chen and Walter Galenson, The Chinese Economy under Communism (Chicago: Aldine-Atherton, 1969), various pages, but in particular, pp. 217-223; Barry Richman, "Economic Development in China and India: Some Conditioning Factors", Pacific Affairs, Vol. 45, No. 1, Spring, 1972, pp. 75-91; and Subramanian Swamy, Economic Growth in China and India, 1952-1970 (Chicago: University of Chicago Press, 1973)--Swamy concludes that "the growth rate of the Chinese and Indian economies has been about the same over the period 1952-1970" (p. 83).

investment. In the early 1950s, agricultural production benefited simply from the end of civil war and the settling down to the seasonal fluctuations of the rural sector. The Chinese authorities thought that the collectivization of the agricultural sector would give sufficient impetus to production without the necessity of large inputs of centrally controlled resources. This initial strategy of agriculture as a "holding operation" proved a failure during the general collapse of the Leap Forward. After having taken emergency measures to bring China back from the verge of mass starvation, the Chinese leadership in 1962 adopted a new agricultural policy--the provision of substantial and growing support from the modern industrial sector. For more than a decade now, a mounting volume of chemical fertilizer, pesticides, irrigation equipment, tractors, and improved seeds has been flowing to the agricultural sector. This support has been supplemented by the output of a host of small industrial plants established in outlying areas.

The policy of agricultural collectivization was another partial failure of the Chinese economy. It began with the "land reform" of the early 1950s when the landlords had their land confiscated and distributed to individual peasants. This was followed by a succession of campaigns for collectivization--leading to mutual aid teams, next to small agricultural producer co-operatives, then to large co-operatives (similar to the Soviet collective farm), and finally to the

even larger commune of the Leap Forward period. After the collapse of the Leap Forward, a three-tier system of agricultural control was established, consisting of a smaller version of the commune with constituent "production brigades" and "production teams". The small production team was given responsibility for routine agriculture decisions, and the government was forced to permit a large amount of private farming, trade, and handicrafts. Agricultural policy today is a compromise between doctrinaire ideas about collectivization and practical measures necessary to stimulate output.

The overall result of these economic policies (see Table 6) has been strong but erratic growth for the Chinese economy. The following estimates of average annual rates of growth since 1952 for various economic indicators are computed from Table 6 and serve to demonstrate the strength of China's economy:

Economic Indicator	Long-Term Growth Rate (Per Cent)
Gross National Product	6
Population	2
GNP per capita	3
Agricultural Production	2
Industrial Production (1952 base)	11
Industrial Production (1957 base)	9
Foreign Trade	9

The PRC's gross national product (GNP) in 1952, the year in which the economic machinery was restored to operation,

TABLE 6

SELECTED CHINESE ECONOMIC INDICATORS, 1949-1974

Year	GNP ^a (Billions of US Dollars)	Population at Mid-Year (Millions)	GNP per capita ^a (US Dollars)	Index of GNP (1957=100)	Index of Industrial Production (1957=100)	Index of Agricultural Production (1957=100)	Steel Output (Millions of Metric Tons)	Grain Output (Millions of Metric Tons)	Cotton Output (Millions of Metric Tons)	Foreign Trade ^b			
										Volume (Billions of US Dollars)	Per Cent CPCs DMCs LDCs		
1949	40	538	74	42	20	54	neg.	108	0.4	0.8	neg.	n.a.	n.a.
1950	49	547	89	52	27	64	1	125	0.7	1.2	29	n.a.	n.a.
1951	56	558	101	60	38	71	1	135	1.0	1.9	51	n.a.	n.a.
1952	67	570	117	71	48	83	1	154	1.3	1.9	70	n.a.	n.a.
1953	71	593	122	76	61	83	2	157	1.2	2.3	68	n.a.	n.a.
1954	75	596	125	79	70	84	2	160	1.1	2.4	74	n.a.	n.a.
1955	82	611	134	87	73	94	3	175	1.5	3.0	74	n.a.	n.a.
1956	88	626	141	94	88	97	4	182	1.4	3.1	66	n.a.	n.a.
1957	94	641	147	100	100	100	5	185	1.6	3.1	64	n.a.	n.a.
1958	113	657	172	120	145	108	11	200	1.7	3.8	63	n.a.	n.a.
1959	107	672	160	114	177	83	13	165	1.2	4.3	69	n.a.	n.a.
1960	106	685	155	113	194	78	19	160	0.9	4.0	66	19	16
1961	82	695	118	87	108	77	8	160	0.8	3.0	56	27	17
1962	93	704	133	99	114	92	8	180	1.0	2.7	53	26	22
1963	103	716	144	110	137	96	9	185	1.2	2.8	45	31	25
1964	117	731	160	125	163	106	11	195	1.7	3.2	34	34	32
1965	134	747	179	143	199	114	13	210	1.9	3.9	30	39	31
1966	145	763	190	154	231	116	15	215	1.8	4.2	26	44	31
1967	141	780	180	150	202	123	12	230	1.9	3.9	21	51	28
1968	142	798	178	151	222	116	14	215	1.8	3.8	22	50	28
1969	157	817	192	167	265	118	16	220	1.8	3.9	20	50	30
1970	179	837	214	190	313	129	18	240	2.0	4.2	20	53	28
1971	190	857	222	203	341	134	21	246	2.2	4.7	22	48	30
1972	197	878	225	210	371	130	23	240	2.1	5.9	22	46	32
1973	217	899	241	231	416	138	26	250	2.5	9.9	17	53	29
1974	223	920	243	238	432	141	24	255	2.5	13.7	17	56	27

THE INTERNAL ENVIRONMENT

TABLE 6--CONTINUED

Sources: Arthur G. Ashbrook, Jr., "China: Economic Overview, 1975", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), Table 2, p. 23, and Table 5, pp. 42-43; Arthur G. Ashbrook, Jr., "China: Economic Policy and Economic Results, 1949-71", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Table 3, p. 5, and Table 4, pp. 46-47; Far Eastern Economic Review, Asia 1976 Yearbook (Hong Kong: Far Eastern Economic Review, 1976), p. 153; USDS, Bureau of Public Affairs, Background Notes on the Countries of the World: People's Republic of China, Pubn. 7751, Rev. Nov. 1975 (Washington, D.C.: US Government Printing Office, 1975), p. 9.

^aFor an explanation of the methodology and assumptions used in deriving the GNP series, see Ashbrook, "Economic Overview, 1975", App. A, pp. 42-45. GNP and GNP per capita are presented in constant (1973) US dollars.

^bThe volume of foreign trade is presented in current US dollars. The percentage shares are calculated from Table 9, p. 86, of this thesis, and may not add to 100 due to rounding.

neg. means "negligible"; n.a. means "not available".

was about 67 billion dollars, or 117 dollars per capita. By 1974, GNP had more than tripled to 223 billion dollars, and per capita income had risen to 243 dollars. Thus, the long-term rate of economic growth since 1952 has averaged six per cent per annum, or three per cent per capita. Furthermore, a breakdown of the GNP figures shows how economic results have paralleled economic policies. Investment has been concentrated in the industrial sector, and industrial growth accordingly has surpassed agricultural growth. Agricultural growth, in turn, has been just sufficient to support the growing population at minimum standards. The favoured industrial sector has grown at an average rate of 11 per cent per annum since 1952, or nine per cent if the larger 1957 base is used. The agricultural sector, which until 1962 had to rely on its own energies, has grown at an average rate of two per cent per annum, or about the same as population.

Whereas these long-term growth rates demonstrate the strength of China's economic growth, the following statistics (selected from Table 6) show its erratic nature:

Event	Year	GNP (Billions of US Dollars)	GNP Index (1957=100)
Start of First Five-Year Plan	1952	67	71
End of First Five-Year Plan	1957	94	100
Start of Leap Forward	1958	113	120
End of Leap Forward	1961	82	87
Start of Cultural Revolution	1966	145	154
End of Cultural Revolution	1968	142	151
Recent Level	1974	223	238

b. Chinese Foreign Trade

The Ministry of Foreign Trade is responsible for conducting the PRC's foreign trade. Since 1956, it has enjoyed a monopoly position. The ministry draws up the national import and export plans, conducts external trade relations, and signs trade agreements and contracts on behalf of the government. Subordinate to the ministry are state trading corporations⁵ which handle the actual import and export operations. They serve as the middlemen between Chinese producers and end users, and the foreign trading firms. At present, there are eight foreign trade corporations, each dealing in specific groups of commodities. In addition, there are agencies which handle ancillary services, such as ship chartering and insurance. Joint shipping companies have been formed with Poland, Albania, and Tanzania. The Bank of China, with its overseas branches in Hong Kong, Singapore, and London, and its correspondent relationships with other banks, provides much of the commercial financing, letters of credit, and payment facilities for Chinese trade.

A prominent feature of Chinese trade with the DMCs and the LDCs is the semiannual Canton (Kwangchow) Trade Fair. Although these fairs are officially designated as "Chinese

⁵For a list of China's foreign trade corporations and trade-related entities, and their areas of responsibility, see Appendix C of this thesis.

Export Commodities Fairs", both import and export contracts are concluded, usually accounting for 30 to 50 per cent of China's annual foreign trade. The fairs give traders an opportunity to meet with representatives of China's state trading corporations and provide the Chinese with some economic leverage by bringing the buyers and sellers together in a competitive atmosphere. Negotiations on some large contracts, e.g. steel imports, are continued after the fair closes. China also obtains some political returns from the fairs by selective issuance of invitations required for attendance. Other major portions of trade are concluded under annual trade agreements with all of the CPCs and several other countries, and through high-level negotiations with foreign suppliers. These latter negotiations are for major commodity imports, such as grain and fertilizer, and for large purchases, such as whole plants or aircraft.

China's foreign trade is used as an instrument by Peking to foster its overall economic and political goals. Foreign trade is conducted as a state monopoly within the centrally planned economy and is an important ingredient in China's programme to transform itself into a modern industrial nation. While raw materials still comprise a large part of China's imports, since 1970 import policy has been increasingly directed toward the acquisition of capital goods which embody advanced technology for the development of China's industrial base and its defence industries. This trend has been most

evident in the last few years when the emphasis has focused on importing equipment and plants. Trade is also used to overcome serious shortfalls and bottlenecks in domestic production.

A prevailing theme in China's foreign trade policy is economic independence.⁶ For more than a decade the PRC has generally avoided long-term foreign credit, preferring to scale imports to the amount of foreign exchange available from export earnings. Furthermore, China has attempted to become self-sufficient in key branches of industry and technology through copying foreign equipment and developing its own productive capabilities. In addition, it seeks to avoid becoming dependent on one country as a source of imports or as a market for its exports and, from the mid-1960s until recently, allowed very few foreign technicians into China.

⁶In fact, the Chinese consider foreign trade as a means to facilitate self-reliance. This is evidenced in the following statement by then Deputy Premier Teng Hsiao-ping in his April 1974 speech at the special session of UNGA:

"By self-reliance we mean that a country should mainly rely on the strength and wisdom of its own people, control its own economic lifelines, make full use of its own resources, strive hard to increase food production and develop its national economy step by step and in a planned way. . . . Under no circumstances, however, does this policy mean pursuing a 'closed door' policy. . . . Foreign trade is necessary to the development of China's national economy."

Quoted in US Department of Commerce, Domestic and International Business Administration, Overseas Business Reports: China's Foreign Trade Policy: A Current Appraisal, OBR 74-50 (Washington, D.C.: US Government Printing Office, 1974), p. 3.

This situation is now undergoing some change because purchases in recent years of high technology items, e.g. complete petrochemical plants, will require the presence of foreign engineers to oversee equipment installation and to supervise start-up and operation.

The PRC must balance its determination to become independent of foreign sources of supply against its need for advanced equipment and technology. In the 1950s, foreign support came from the USSR and Eastern Europe, and the CPCs accounted for two-thirds of China's trade. After the widening of the Sino-Soviet rift, China turned to Japan and Western Europe for support in its industrialization, and by the end of the 1960s, the DMCs (50 per cent) and the LDCs (30 per cent) had increased their share of China's trade to over three-quarters. In spite of many successes in absorbing outside technology and adapting foreign prototypes to its own purposes, China still continues to lag far behind the major industrial nations in the various branches of industrial technology. Moreover, because of its insistence on a balance of exports and imports, the rate at which China obtains foreign support depends largely on how much its agricultural sector can provide in export goods, i.e. how much it can produce above minimum food requirements. In turn, minimum food requirements are a function of the rate of growth of population.

China is a relatively closed economy⁷--China's trade participation ratio in 1974 was about six per cent, with exports amounting to less than three per cent of GNP. Import plans are drawn up in view of foreign exchange capabilities and the fulfillment of export plans has priority over domestic consumption. Trade with the CPCs is bilateral and imbalances are settled in goods; trade with the rest of the world is for the most part multilateral and settled in hard currency. Within the latter, deficits with the DMCs are financed in part by earnings from the LDCs.

Although economic gain is the primary concern, political considerations have also affected China's foreign trade policy. The "lean to one side" policy of the 1950s and the subsequent reorientation of China's trade away from the CPCs following the Sino-Soviet rift were both influenced by ideology. Trade has been used as a means of obtaining political recognition from the DMCs and of extending Chinese influence in the LDCs. For instance, following Canada's political recognition of the PRC in October 1970, China implied that its wheat contracts with Canada to the exclusion of Australia were a means of rewarding friends. On the other

⁷In contrast, Canada is a relatively open economy. In 1974, Canada's trade participation ratio (i.e. exports plus imports expressed as a proportion of total output) was 57 per cent, with exports alone amounting to 27 per cent of GNP. Calculated from Canadian Department of Finance, Economic Review: 1975 (Ottawa: Information Canada, 1975), Reference Table 2, p. 103.

hand, China did not allow its opposition to the former Sato Government to block Japan's emergence as its largest trading partner, and West Germany became China's main trading partner in Western Europe long before it established diplomatic ties with the PRC.⁸

China has maintained a conservative international financial policy. The balance of payments has been favourable in most years with imports, foreign aid expenditures, and debt repayments more than compensated for by export earnings, overseas remittances, and receipts of foreign credits. The PRC has at no time incurred large financial obligations, and since the break with the USSR, has avoided long-term credits altogether. Short-term and medium-term commercial credits have been extended by the DMCs for purchases of grain, fertilizer, and complete plants. China liquidated its debt to the Soviet Union in 1965. Its commercial indebtedness to the DMCs has been very low, but has been rising recently with the purchase of complete plants using medium-term credit, and may now exceed one billion dollars.⁹ Reserves of gold and foreign exchange have been built up since the early 1960s and at the

⁸In September, 1972, Japan announced the establishment of diplomatic relations with the PRC; West Germany and Australia followed suit shortly thereafter.

⁹US Department of Commerce, Domestic and International Business Administration, Overseas Business Reports: Doing Business with China, OBR 74-49 (Washington, D.C.: US Government Printing Office, 1974), p. 2.

end of 1973 probably totalled over one billion dollars,¹⁰ an adequate sum in view of the current volume and controlled nature of China's foreign trade, and the absence of long-term foreign debt.

China's trade and payments relations with the CPCs are bilateral. Since any trade imbalances that might occur are usually matched by credits or settled in goods the following year, these accounts have little effect on Chinese reserves of gold and foreign exchange. A trade imbalance or a delivery of aid between CPCs represents a flow of resources and an opportunity cost, but it usually does not cause an expenditure of hard currency as in the case of other countries.

China's balance of payments with the DMCs and the LDCs has been of particular importance since the shift in China's trade away from the CPCs. Previous to this shift, imports from the DMCs were financed by export earnings from the LDCs and by overseas remittances. Following the collapse of the Leap Forward, the need for large-scale grain and fertilizer imports led China to seek short-term credits from the DMCs as a supplement. The recovery of exports to the DMCs starting in 1963 and the large trade surpluses with the LDCs in 1965 and 1966 improved the overall balance of payments with these areas. Grain and fertilizer credits continued through the 1960s, although they are now largely offset by

¹⁰Ibid.

repayments. The disruption of exports during the Cultural Revolution was a setback for the balance of payments and in 1968 imports were reduced. The sharp rise in imports from the DMCs in 1970 again produced a trade deficit. The Chinese quickly adjusted in 1971 and 1972 by increasing exports and restricting the growth in imports. Large trade deficits occurred in 1973-1974 as the Chinese began using deferred payments to finance imports.

Since the immediate post-Leap Forward period, when reserves dropped sharply, China's international reserve position improved rapidly and surpassed the levels of the late 1950s (see Table 7). Additions to holdings of foreign exchange come from trade surpluses with the LDCs, from remittances of foreign currency by overseas Chinese, which have been increasing yearly and usually total over 100 million dollars each year,¹¹ and from other earnings, such as profits from PRC-owned businesses and investments in Hong Kong. Gold reserves have been built up from China's small domestic gold production and from purchases of monetary gold. Gold purchases, while they do not increase total reserves, represent Peking's decision in the 1960s to reduce the amount of its reserves held as foreign currency balances, apparently in

¹¹US Department of Commerce, Domestic and International Business Administration, Overseas Business Reports: Basic Data on the Economy of the People's Republic of China, OBR 74-21 (Washington, D.C.: US Government Printing Office, 1974), p. 34.

TABLE 7
 CHINA'S INTERNATIONAL RESERVE POSITION,
 1957 and 1959-1970^a
 (Millions of US Dollars)^b

End of Year	Gold	Foreign Exchange	Total Reserves
1957	35	610	645
1959	80	450	530
1960	115	300	415
1961	140	215	355
1962	165	155	320
1963	190	145	335
1964	170	180	350
1965	310	140	450
1966	370	295	665
1967	395	215	610
1968	490	195	685
1969	535	320	855
1970	560	160	720

Sources: Central Intelligence Agency, "Communist China's Balance of Payments, 1950-65", Table 3, p. 629, and Robert L. Price, "International Trade of Communist China, 1950-65", Table 3, p. 588, both in An Economic Profile of Mainland China, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1967); A.H. Usack and R.E. Batsavage, "The International Trade of the People's Republic of China", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Table 2, p. 342; and US Department of Commerce, Domestic and International Business Administration, Overseas Business Reports: Basic Data on the Economy of the People's Republic of China, OBR 74-21 (Washington, D.C.: US Government Printing Office, 1974), Table 14, p. 34.

^a1970 is the latest year for which detailed information is available. However, the US Department of Commerce estimates that China's international reserves are currently in excess of one billion dollars (see p. 81 below).

^bRounded to the nearest five million dollars.

reaction to world monetary crises and the political and monetary crisis in Southeast Asia. At the end of 1970, reserves of gold and foreign exchange were over 700 million dollars (equal to 30-35 per cent of China's imports). China's international reserves are currently in excess of one billion dollars.¹²

China points with pride to the fact that it is free of long-term foreign debt. After the break with the Soviet Union, China rapidly liquidated its debts to the USSR. By generating trade surpluses with the USSR, China was able to repay the 1.4 billion dollars in long-term Soviet credits, the sugar loan, and other medium-term debts by 1965, well ahead of schedule. Until recently, financing received from the DMCs consisted of six-month to 18-month commercial credits for imports of grain and fertilizer. However, from the fall of 1972 through 1974 the PRC purchased more than two billion dollars worth of complete plant and equipment from Japan, the United States, and Western Europe financed in part with "deferred payments" over a period of five years at six per cent interest.¹³ This has been the first instance of medium-term financing utilized by the Chinese since the

¹²Ibid.

¹³David L. Denny, "International Finance in the People's Republic of China", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), p. 668.

mid-1960s.

Since China liquidated its debt to the Soviet Union in 1965, its commercial indebtedness to the DMCs has ranged as high as 300-400 million dollars. Because of recent increased purchases of agricultural products such as grain and fertilizer, financed by short-term credits, China's short-term debt continues to be placed at an estimated 175 million dollars for 1973 and 300-350 million dollars for 1974.¹⁴ In addition, the complete plant purchases noted above have added about two billion dollars in medium-term credits. According to an estimate of the PRC repayment schedule for the two billion dollars, payments will range from 276 million dollars in 1975 to a peak of 370 million dollars in 1978, and will fall to 103 million dollars in 1982.¹⁵ Because China has an excellent credit reputation, substantial long-term credits would certainly be available if China decided to expand imports in this manner.

Until recently, the bulk of China's trade with the DMCs and the LDCs was denominated in Western currencies. Trade with Japan, China's largest trading partner, was conducted in British sterling; Swiss francs, French francs, West

¹⁴US Department of Commerce, Basic Data on the Economy of the PRC, p. 34.

¹⁵Denny, "International Finance in the PRC", Table 3, p. 670.

German marks, and the Hong Kong dollar were widely used in settlements with many other countries. Since 1968, however, China has made increasing use of its own currency--the renminbi¹⁶--in foreign trade contracts. Such contracts account for a major share of PRC exports, but Chinese imports (except for those from Japan) seem to be denominated and paid largely in Western currencies. The renminbi is not a convertible currency and its value is arbitrarily set by China, although since 1974 there has been some indication that the renminbi follows a floating rate policy by changing its value daily to reflect world monetary conditions.

Because China's foreign trade is an integral part of the centrally planned economy, it has followed closely the trends in the Chinese economy. (See Tables 8-11 for statistics on volume, geographic distribution, and commodity composition of Chinese trade.)¹⁷ The decade of the 1950s was marked by

¹⁶The basic unit of currency in China is generally known as the yuan, although its formal name is the renminbi (or "people's currency"). The yuan is divided into 10 chiao and 100 fen. At the end of 1975, one renminbi equalled 0.52 Canadian dollar.

¹⁷For more detailed figures on China's exports to and imports from individual trading partners, see A.H. Usack and R.E. Batsavage, "The International Trade of the People's Republic of China", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Table 10, pp. 350-351; and Nai-Ruenn Chen, "China's Foreign Trade, 1950-1974", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), Tables A.5-A.6, pp. 648-650.

TABLE 8
 VOLUME OF CHINA'S FOREIGN TRADE,^a 1950-1974
 (Millions of US Dollars)^b

Year	Total Trade	Exports	Imports
1950	1,210	620	590
1951	1,900	780	1,120
1952	1,890	875	1,015
1953	2,295	1,040	1,255
1954	2,350	1,060	1,290
1955	3,035	1,375	1,660
1956	3,120	1,635	1,485
1957	3,055	1,615	1,440
1958	3,765	1,940	1,825
1959	4,290	2,230	2,060
1960	3,990	1,960	2,030
1961	3,015	1,525	1,490
1962	2,675	1,525	1,150
1963	2,770	1,570	1,200
1964	3,220	1,750	1,470
1965	3,880	2,035	1,845
1966	4,245	2,210	2,035
1967	3,895	1,945	1,950
1968	3,765	1,945	1,820
1969	3,860	2,030	1,830
1970	4,220	2,045	2,175
1971	4,660	2,405	2,255
1972	5,920	3,085	2,835
1973	9,870	4,895	4,975
1974	13,715	6,305	7,410

TABLE 8--CONTINUED

Sources: Nai-Ruenn Chen, "China's Foreign Trade, 1950-1974", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), Table A.1, p. 645; The Editor, "China's Foreign Trade in 1974", Current Scene, Vol. XIII, No. 9, September, 1975, Table I, p. 3; The Editor, "China's Foreign Trade, 1973-1974", Current Scene, Vol. XII, No. 12, December, 1974, Table 2, p. 7; Far Eastern Economic Review, Asia 1976 Yearbook (Hong Kong: Far Eastern Economic Review, 1976), p. 153; A.H. Usack and R.E. Batsavage, "The International Trade of the People's Republic of China", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Table 3, p. 343; US Central Intelligence Agency, Office of Economic Research, People's Republic of China: International Trade Handbook, Research Aid, December, 1972, Table 2, p. 9; US Department of Commerce, Domestic and International Business Administration, Overseas Business Reports: Basic Data on the Economy of the People's Republic of China, OBR 74-21 (Washington, D.C.: US Government Printing Office, 1974), Table 3, p. 24.

^aData are based on reports of China's trading partners and have been adjusted to show China's exports f.o.b. and China's imports c.i.f.

^bRounded to the nearest five million dollars.

TABLE 9

GEOGRAPHIC DISTRIBUTION OF CHINA'S FOREIGN TRADE,^a 1960-1974
 (Millions of US Dollars)^b

Year	Total Trade			Exports			Imports		
	CPCs	DMCs	LDCs	CPCs	DMCs	LDCs	CPCs	DMCs	LDCs
1960	2,620	745	620	1,335	240	385	1,285	505	235
1961	1,685	820	515	965	220	340	715	600	175
1962	1,410	685	585	915	210	400	490	475	185
1963	1,250	845	680	820	265	490	430	580	190
1964	1,100	1,100	1,015	710	415	620	390	685	395
1965	1,165	1,495	1,220	650	575	810	515	920	410
1966	1,090	1,855	1,300	585	715	910	505	1,140	390
1967	830	1,980	1,085	485	635	825	345	1,345	260
1968	840	1,870	1,055	500	620	825	340	1,250	230
1969	785	1,930	1,145	490	685	855	295	1,245	290
1970	825	2,230	1,165	475	675	895	350	1,555	270
1971	1,015	2,240	1,405	580	810	1,015	435	1,430	390
1972	1,275	2,740	1,905	740	1,070	1,275	535	1,670	630
1973	1,700	5,260	2,910	995	1,805	2,095	705	3,455	815
1974	2,300	7,675	3,740	1,370	2,375	2,560	930	5,300	1,180

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TABLE 9--CONTINUED

Sources: Nai-Ruenn Chen, "China's Foreign Trade, 1950-1974", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), Tables A.5-A.6, pp. 648-650; The Editor, "China's Foreign Trade in 1974", Current Scene, Vol. XIII, No. 9, September, 1975, Tables I and III, pp. 3 and 6; The Editor, "China's Foreign Trade, 1973-1974", Current Scene, Vol. XII, No. 12, December, 1974, Tables 2-3, pp. 7-8; A. H. Usack and R. E. Batsavage, "The International Trade of the People's Republic of China", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Tables 3, 5, 7, and 10, pp. 343, 345, 347, and 350-351; US Central Intelligence Agency, Office of Economic Research, People's Republic of China: International Trade Handbook, Research Aid, December, 1972, Tables 2-3, pp. 9-11; US Department of Commerce, Domestic and International Business Administration, Overseas Business Reports: Basic Data on the Economy of the People's Republic of China, OBR 74-21 (Washington, D.C.: US Government Printing Office, 1974), Table 3, p. 24.

^aData are based on reports of China's trading partners and have been adjusted to show China's exports f.o.b. and China's imports c.i.f.

^bRounded to the nearest five million dollars. Because of rounding, components may not add to the totals shown in Table 8, p. 84, of this thesis.

TABLE 10

COMMODITY COMPOSITION OF CHINA'S EXPORTS,^a 1959 AND 1964-1973
(Millions of US Dollars)^b

Commodity Category	1959	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Total	2230	1750	2035	2210	1945	1945	2030	2045	2405	3085	4895
Foodstuffs	835	420	530	615	510	535	615	645	790	955	1595
Animals, meat, and fish	n.a.	n.a.	205	230	170	175	210	215	280	335	485
Grain	n.a.	n.a.	115	150	140	130	115	110	120	155	535
Fruits and vegetables	n.a.	n.a.	105	120	125	140	175	170	190	180	225
Crude materials, fuels, and edible oils	495	320	405	480	440	415	450	430	490	600	870
Oilseeds	n.a.	n.a.	80	90	90	85	75	65	15	15	105
Textile fibres	n.a.	n.a.	75	105	100	90	120	100	130	205	290
Crude animal materials	n.a.	n.a.	75	90	75	100	130	115	115	115	165
Chemicals	90	65	75	90	85	85	90	105	130	160	245
Manufactured goods	810	885	915	920	850	850	820	855	965	1340	2160
Textile yarn and fabric	620	495	295	305	250	270	310	340	325	460	795
Clothing			190	185	170	180	195	155	155	190	275
Iron and steel	n.a.	n.a.	85	90	70	25	35	40	60	65	110
Nonferrous metals	n.a.	n.a.	40	40	35	25	35	25	45	30	50
Other	--	60	110	105	60	60	55	10	30	30	25

THE INTERNAL ENVIRONMENT

TABLE 10--CONTINUED

Sources: Nai-Ruenn Chen, "China's Foreign Trade, 1950-1974", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), Table A.3, p. 647; The Editor, "China's Foreign Trade, 1973-1974", Current Scene, Vol. XII, No. 12, December, 1974, Table 7, p. 10; A. H. Usack and R. E. Batsavage, "The International Trade of the People's Republic of China", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Tables 8 and 11, pp. 348 and 353; US Central Intelligence Agency, Office of Economic Research, People's Republic of China: International Trade Handbook, Research Aid, December, 1972, Table 7, pp. 16-17; US Department of Commerce, Domestic and International Business Administration, Overseas Business Reports: Basic Data on the Economy of the People's Republic of China, OBR 74-21 (Washington, D.C.: US Government Printing Office, 1974), Table 5, p. 25.

^aEstimates are based on data reported by China's trading partners. Where data are incomplete, as for most of the LDCs and for many of the CPCs, estimates are based on fragmentary information from trade agreements and press reports, and on commodity breakdowns available for earlier years.

^bRounded to the nearest five million dollars.

n.a. means "not available".

TABLE 11

COMMODITY COMPOSITION OF CHINA'S IMPORTS,^a 1959 AND 1964-1973
(Millions of US Dollars)^b

Commodity Category	1959	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Total	2060	1470	1845	2035	1950	1820	1830	2175	2255	2835	4975
Foodstuffs	20	580	520	510	380	410	350	355	300	455	1000
Grain	--	475	400	400	295	305	260	280	210	345	840
Crude materials, fuels, and edible oils	445	375	375	340	320	300	310	360	355	550	985
Petroleum	120	--	--	--	--	--	--	--	--	--	--
Rubber	n.a.	n.a.	70	85	75	85	145	80	75	70	165
Textile fibres	n.a.	n.a.	190	150	150	100	90	110	115	205	400
Chemicals	155	115	230	250	285	315	310	330	295	360	445
Fertilizer	70	65	145	155	200	200	205	230	200	190	220
Manufactured goods	1195	390	695	910	945	775	850	1120	1275	1455	2505
Textile yarn and fabric	n.a.	n.a.	40	35	45	40	30	45	25	40	70
Iron and steel	n.a.	n.a.	145	225	325	265	275	405	475	510	930
Nonferrous metals	n.a.	n.a.	50	55	85	125	225	210	145	235	400
Machinery and equipment	980	180	330	455	380	275	240	395	495	520	855
Other	250	10	25	25	20	20	10	10	30	15	40

THE INTERNAL ENVIRONMENT

TABLE 11--CONTINUED

Sources: Nai-Ruenn Chen, "China's Foreign Trade, 1950-1974", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), Table A.2, p. 646; The Editor, "China's Foreign Trade, 1973-1974", Current Scene, Vol. XII, No. 12, December, 1974, Table 8, p. 11; A. H. Usack and R. E. Batsavage, "The International Trade of the People's Republic of China", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Tables 8 and 12, pp. 348 and 353; US Central Intelligence Agency, Office of Economic Research, People's Republic of China: International Trade Handbook, Research Aid, December, 1972, Table 8, pp. 18-19; US Department of Commerce, Domestic and International Business Administration, Overseas Business Reports: Basic Data on the Economy of the People's Republic of China, OBR 74-21 (Washington, D.C.: US Government Printing Office, 1974), Table 6, p. 25.

^aEstimates are based on data reported by China's trading partners. Where data are incomplete, as for most of the LDCs and for many of the CPCs, estimates are based on fragmentary information from trade agreements and press reports, and on commodity breakdowns available for earlier years.

^bRounded to the nearest five million dollars.

n.a. means "not available".

the "lean to one side" policy and dependence on the USSR and Eastern Europe for support in industrial development. Two-thirds of China's trade was with the CPCs. Trade was dominated by the exchange of foodstuffs, raw materials, and textiles for machinery and equipment, and industrial materials. Total trade (exports plus imports) grew rapidly from 1.2 billion dollars in 1950 to 4.3 billion dollars in 1959 as economic order was restored, a successful five-year plan was implemented, and rapid industrialization was attempted during the Leap Forward period. The USSR was the PRC's largest trading partner and the major supplier of complete industrial installations and technical assistance. Soviet economic development aid was relatively small, however, totalling only 430 million dollars in long-term credits. The willingness of the USSR and the Eastern European countries to accept large amounts of Chinese agricultural products, minerals, and textiles enabled China to pay for the importation of machinery and technology. Trade with the DMCs and the LDCs was relatively constant in the first half of the decade, in part because of trade restrictions imposed during the Korean War. This trade grew in the second half of the decade, with imports being generally limited to goods not available or in short supply in the CPCs.

The decade of the 1960s produced dramatic shifts in both the direction and composition of China's trade. The break with the USSR led to a complete reversal in the direc-

tion of trade, and by 1970, over 80 per cent of Chinese trade was with the DMCs and the LDCs. The economic collapse following the Leap Forward and the withdrawal of Soviet aid in 1960 caused a sharp drop in total trade--trade with the CPCs accounting for most of the decrease--as export capacity fell and imports of capital goods were cut back. At the same time, food shortages in the early 1960s forced the government to begin the large-scale importation of grain and chemical fertilizer from the DMCs. The overall volume of trade fell to 2.7 billion dollars in 1962, then moved upward again as the economy recovered. By 1966, total trade had increased to almost the 1959 level, but trade with the CPCs continued to decline. The disruptions of the Cultural Revolution provided only a brief setback to trade in 1967-1968. Foreign trade was adversely affected by the fall in industrial production, delays in transportation, and the purges of government officials in the Ministry of Foreign Trade. Also, Red Guard rampages in 1967 against foreign embassies and the harrassing of foreigners damaged trade relations with many trading partners. As internal order was restored and the disturbances began to wane in 1969, trade turned back upward and reached 4.2 billion dollars in 1970, near the peak level of 1959.

Thus, China's foreign trade during the last half of the decade reflected the economic recovery that occurred through 1966, the adverse effects of the Cultural Revolution

in 1967-1968, and the subsequent revival of economic growth. The largest increases in this period were with the DMCs, especially Japan and the Western European countries, which became China's major sources of capital goods and modern technology. From 1963 to 1966, China contracted for more than 50 complete plants from the DMCs.¹⁸ Trade with the LDCs also grew during this period, primarily due to increases in Chinese exports to this area. In particular, trade with Hong Kong and Macao, China's largest export market, reached a peak of 405 million dollars in 1966 and again approached this level in 1970. The portion of China's trade with the CPCs declined to 20 per cent in the 1960s, principally because trade with the USSR dwindled to only 45 million dollars in 1970. Trade with Cuba and the CPCs in Asia fell slightly in the second half of the decade. In contrast, Chinese trade with the Eastern European countries rose more than 50 per cent between 1965 and 1970. Trade with Romania more than doubled in this period and Romania became the PRC's major trading partner in Eastern Europe.

The changeover in the direction of China's foreign trade was accompanied by important shifts in the commodity composition of Chinese trade in the 1960s. Grain and chemical fertilizer became major import items, costing China between

¹⁸Usack and Batsavage, "International Trade of the PRC", p. 336.

400 million and 500 million dollars each year. Imports of machinery and equipment came down from the levels of the late 1950s as a result. In 1970, China obtained almost all of its imports of grain, chemical fertilizer, textile yarn and fabric, iron and steel, and nonferrous metals, and almost two-thirds of its imports of machinery and equipment from the DMCs. The LDCs were an important supplier of rubber and textile fibres. The CPCs contributed a significant portion of imports in the case of foodstuffs (other than grain), crude materials (other than rubber and textile fibres), and machinery and equipment. The traditional Chinese export mix of foodstuffs, crude materials, textiles, and light manufactured goods did not change radically over time. In 1965, exports of foodstuffs exceeded imports for the first time since 1960; by 1970, foodstuff exports were more than 80 per cent higher than imports. Exports of oilseeds and nonferrous metals remained depressed as production barely supplied internal needs.

China's general economic momentum continued into the 1970s and foreign trade increased to record levels. Until 1971, the value of China's foreign trade never rose above the 1959 peak. Then, because of a renewed Chinese interest in foreign goods, but also because of revaluations of world currencies and world-wide inflation, the dollar figures began to accelerate rapidly--reaching 13.7 billion dollars in 1974. About one-half of the 1973 increase and almost all

of the 1974 increase were attributable to monetary factors.¹⁹ Following the resumption in 1972 of direct trade with the United States, the geographic distribution of Chinese trade swung even more toward the DMCs--increasing to 56 per cent of total trade in 1974. There was virtually no trade between the United States and the PRC from 1954 to 1970. In 1974, 115 million dollars worth of Chinese products were exported to the United States and PRC imports of US products reached the level of 967 million dollars, making the United States China's second largest trading partner (next to Japan). Trade with the LDCs and the CPCs also increased in dollar amounts, but declined in percentage terms to 27 per cent and 17 per cent, respectively, of Chinese trade.

The commodity composition of Chinese trade in the 1970s has been notable for two main features: (1) Oil exports, boosted by increased physical volume and the quadrupling of international oil prices since mid-1973, have taken up the slack in China's traditional exports, which have been hurt by world-wide recession. Earnings from oil exports (mostly to Japan) were 35 million dollars in 1973; they jumped to 440 million dollars in 1974; and they were expected to reach 800 million dollars in 1975.²⁰ (2) The acquisition of complete plants has stepped up sharply since 1972. From January, 1972 through March, 1975, the PRC

¹⁹ Ashbrook, "China: Economic Overview, 1975", pp. 32-33; Chen, "China's Foreign Trade, 1950-1974", p. 620.

²⁰ Ashbrook, "China: Economic Overview, 1975", p. 33.

signed contracts worth over 2.6 billion dollars for the import of more than 170 complete plants.²¹ These plants were for a few basic industries such as petrochemical, fertilizer, iron and steel, and electric power.

In summary, China's economic policies have fluctuated widely between 1949 and the present day. In the first place, radical swings in economic policy have occurred at the higher economic administrative levels because of realignments of political power and a corresponding pattern of advance and retreat in ideological matters. In addition, there have been important changes in the underlying economic situation. The Chinese economy in two and a half decades has moved from the task of restoring operations in basic production facilities to the task of maintaining a strong military-industrial push in the modern sector of the economy and steadily increasing production in the large agricultural sector. Contributing to the fluctuations is the fact that economic policies originating from the top have not always been uniformly put into action at the lower levels because of inevitable delays in the implementation of new policies, as well as varying interpretations and degrees of resistance. As a consequence of these institutional forces, the amplitude of swings in

²¹Hans Heymann, Jr., "Acquisition and Diffusion of Technology in China", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), Table 3, p. 701.

economic policies has been much greater than the amplitude of changes in actual economic events.

The results of China's economic policies have been mixed: both successes and failures have occurred. For the period as a whole, however, China's economic growth has been strong but erratic. Foreign trade, an integral part of the Chinese economy, has emulated the spasmodic pattern of economic policies and economic results. Two periods of social and political upheaval--the Great Leap Forward of the late 1950s and the Great Proletarian Cultural Revolution of the late 1960s--have temporarily thrown economic policy into disarray and have interrupted the momentum of economic growth. Any economic survey of China must take account of the effects of these swings from settled political conditions to political turbulence and back again. Accordingly, the rest of this chapter divides the first quarter-century of the PRC's history into six distinct economic periods²² and takes them in turn,

²²The six periods of China's economic history, in chronological order, are: Rehabilitation (1949-1952), First Five-Year Plan (1953-1957), Great Leap Forward (1958-1960), Second Five-Year Plan (1961-1965), Great Proletarian Cultural Revolution and Third Five-Year Plan (1966-1970), and Fourth Five-Year Plan (1971-1975). One will immediately notice that, with the exception of the Leap Forward, the period since 1953 is divided into four five-year plans. The notion of a central economic plan covering a five-year period was copied from the Soviet model (but is also similar to the Indian model--see Chen and Galenson, The Chinese Economy under Communism, pp. 33-49). The initial phase of Chinese economic development was originally to have been patterned around three five-year plans (1953-1967), but was interrupted by

describing the policies and results that have characterized China's economy and foreign trade in each period.

2. Rehabilitation, 1949-1952

When the People's Republic of China was established under the communist government of Mao Tse-tung on October 1, 1949, the Chinese economy reflected the adverse effects of decades of war, flood, famine, and disease: rail lines were severed; factories were idle from lack of raw materials, fields lay fallow, and dikes and irrigation canals over large areas were in disrepair; millions of people were destitute, many near death from starvation; and galloping inflation had rendered money useless as a medium of exchange. Whereas the immediate situation was desperate, the PRC's long-term economic prospects were reasonably good--China is endowed with a rich abundance in two of the major categories of economic resources, or factors of production, viz. land and labour.

the Leap Forward in 1958, which delayed the Second Five-Year Plan for three years. The Cultural Revolution did not supersede the Third Five-Year Plan in the same way that the Leap Forward did to the Second Five-Year Plan. However, the government was apparently forced to conduct economic planning on a year-to-year basis, and the Third Five-Year Plan disappeared from public notice during the Cultural Revolution. In the fall of 1970, the late Premier Chou En-lai announced that a Fourth Five-Year Plan for 1971-1975 had been drafted.

As for the latter, China possesses a physiologically and culturally homogeneous population²³ which is unsurpassed anywhere in the world as raw material for economic development.²⁴ In respect of the former, China has a plentiful supply of important natural resources, such as coal, iron ore, mercury, tin, tungsten, petroleum, and hydroelectric potential. As to deficiencies, it lacks sufficient quantities of chrome, nickel, cobalt, rubber, copper, and forest products. In absolute terms, China's agricultural resources are sizable. China has a wide variety of soils, temperature, and precipitation, and practically all types of agricultural crops are grown. However, only about 11 per cent of the total land area is suitable for cultivation--multiple-cropping increases the effectiveness of the cultivated area by one-half. Moreover, in relative terms, China's agricultural resources are grossly inadequate since they must feed more

²³Only six per cent of China's population are non-Han Chinese. These minority peoples live for the most part in the vast and sparsely settled border areas of China.

²⁴Indeed, China is the perfect example of "economic development with unlimited supplies of labour". In 1952, it had considerable underemployment among its rural population, and both underemployment and unemployment in the cities. Estimates of the precise magnitudes involved vary greatly, ranging as high as 25 million for the number of unemployed males, of whom seven million were in urban areas. No one has even attempted to estimate female unemployment, due to the lack of information of labour force participation rates among women in China. For more information on this subject, the interested reader is referred to Chen and Galenson, The Chinese Economy under Communism, p. 37.

than 900 million people. It is the large number of people, not a lack of agricultural resources per se, which causes China's omnipresent food-population problem.

Thus, the central task over the long term of the new Government of China was to find the other factors of production--the capital goods, technology, and economic organization--to match the superb human and natural resources which China already had at its disposal. If a momentum could be achieved in building up capital plant, several favourable trends could result: (1) larger and larger numbers of people could be employed in productive industrial pursuits with little, if any, decline in the productive potential of the agricultural sector; (2) the productivity of the fixed land area could be increased by the provision of fertilizer, pesticides, and equipment and materials to strengthen the irrigation and flood-control systems--in this case, the function of capital and technology would be to increase yields, not to replace labour inputs; (3) the vast natural resources could be exploited at an increasing pace; and (4) a more rapid spread of science, technology, and other modernizing influences would be possible in old established industrial areas and in new industrial areas away from the coast. As for economic organization, the new government in Peking possessed great advantages. It had no commitments to the vested interests of the past and could harness the nationalistic fervour of millions of sympathizers. Further-

more, the Chinese Communist Party had already demonstrated considerable skill in the organization of its own party affairs and had experience in organizing the daily lives of millions of people in the so-called revolutionary areas. Finally, the leaders could study the lessons of more than three decades of communist rule in the USSR, drawing negative as well as positive conclusions on how to proceed.

No matter how favourable the long-term prospects, the Chinese economy in 1949 was nevertheless operating far below its productive capacity. There were two major reasons for the low rate of operation in a large part of the industrial and agricultural sectors: (1) the long years of international and civil war had isolated the major cities and had ravaged much of the most productive rural areas; and (2) the collapse of much of everyday industry and commerce because of the flight of many political and business leaders, the drastic loss of confidence in the monetary unit, widespread hoarding, and the general difficulties in maintaining supplies of food and raw materials and essential transportation services. Thus, the economic authorities had two short-term tasks: the immediate restoration of food supplies, essential utilities, and a stable medium of exchange; and the rehabilitation of the severed rail lines, the idle factories, and the neglected dikes and irrigation systems.

During the period from 1949 to 1952, the new government deferred some of its goals of political remoulding in

order to use the talents of experienced businessmen, factory owners and managers, and bureaucratic administrators who otherwise would have been imprisoned or executed. The industrial sector was rapidly revived through a system of government contracts, central control and allocation of major raw materials, and fixed prices. Industrial wages were fixed at levels that reflected real economic possibilities and incentives rather than preferential treatment for the proletariat. Taxes and levies were used to guide production and to transfer ownership of those industrial facilities not already in government hands.

In the face of continuing inflation, the government decided to guarantee purchasing power in certain types of transactions. Accordingly, it began to express wage and salary payments, bank deposits, and some government expenditures and bond issues in terms of commodity basket values. These, called wage, parity deposit, and victory bond units, respectively, were designed to discourage the flight from money into goods and to foster the accumulation of savings and bank deposits. In addition, the People's Bank of China (the PRC's central bank) began to pursue a tight, deflationary credit policy. As a result of such anti-inflationary measures, the Bank finally succeeded in curbing speculation and black market credit and in controlling the interest rate. Thus, monthly interest rates for loans to Shanghai traders rose from 24-30 per cent in June, 1949 to a peak of 70-80 per

cent in December, and then declined continuously to 18 per cent in April, 1950 and to three per cent a year later.²⁵

Economic policy in the agricultural sector was marked by a violent land reform--the distribution of land to the peasants and the execution or dispossession of the landowners. The loss of a substantial number of lives apparently did little damage to the productive potential of the agricultural sector. In the first place, the rural population was so vast that the loss probably averaged less than one person per village, and in the second place, a large fraction of the victims were beyond their physical prime or were not engaged in actual agricultural operations.

The general policy of restoring the economy to operation was successful (see Table 6, p. 69 above)--GNP increased from 40 billion dollars, or 74 dollars per capita, in 1949 to 67 billion dollars, or 117 dollars per capita, in 1952; agricultural production went up by one-half and industrial production more than doubled; and foreign trade rose from 0.8 billion dollars in 1949 to 1.9 billion dollars in 1952. Whereas the economic situation at the beginning of the period of Rehabilitation was characterized by the existence of idle factors of production, the economy at the end of the period was fully utilizing its potential to increase

²⁵Alexander Eckstein, Communist China's Economic Growth and Foreign Trade (New York: McGraw-Hill, 1966), p. 27.

the production of both capital goods, and food and other consumer goods. By 1952, despite involvement in the Korean War, the Chinese Government had substantially completed its programme for economic recovery--(1) comprehensive, centralized control of the economy, (2) fiscal and monetary stability, (3) attainment of pre-1949 production levels, and (4) establishment of the groundwork for long-term economic planning.

3. First Five-Year Plan, 1953-1957

Once the initial tasks of establishing political and military control and of restoring the economy to operation were completed, the Chinese Government launched a programme of rapid industrialization under the tutelage of the Soviet Union--appropriately named, in the words of Mao Tse-tung, the policy of "lean to one side". Accordingly, starting in 1950, a series of agreements with the USSR provided that the Soviet Union would supply the PRC with approximately 300 modern industrial plants over a span of three five-year plans (1953-1967). These plants, worth roughly three billion dollars, were a balanced package of basic industrial facilities (such as iron and steel mills and electric power stations), machine-building plants (such as general machinery plants and a truck plant), and armaments plants (such as aircraft plants, shipyards, and a tank plant). The location and scheduling of the plants were designed to keep the supplies of raw materials and components in balance with

the requirements of users. Thus, the completion of an electric power plant was to be followed by the completion of an aluminum plant and, in turn, by an aircraft plant. New technology was to be rapidly but systemically introduced. The schedule of completions provided for a progression from basic plants producing fuels and industrial materials to more complex plants producing heavy industrial machinery and modern armaments.

Soviet equipment, technology, and technical people began to flow to China in increasing volume during the First Five-Year Plan. Furthermore, several thousand Chinese scientists and technicians went to the Soviet Union for training, and the Chinese technical education system adopted Soviet textbooks and technical materials. The Chinese also copied the Soviet system of economic planning.²⁶ Thus, China became a command, or centrally planned, economy with the following Soviet-style features: (1) government ownership and operation of major industrial and transportation facilities, (2) collectivization of agriculture, (3) annual and five-year plans administered by a huge bureaucratic apparatus of planning bodies and economic ministries, (4) emphasis on investment in heavy and military industries, and (5) provision of the minimum amount of consumer goods

²⁶For a description of China's economic and foreign trade decision-making structure, see Appendix D of this thesis.

needed to sustain the population.

In agriculture, the peasants were not left long in possession of their newly-acquired land. During the First Five-Year Plan, they were organized into successively larger collectivist units--first the mutual aid team, then small agricultural producer collectives, and finally the larger agricultural producer collective, which was roughly equivalent in economic function and organization to the Soviet collective farm of that period. The income of rural families was determined by the allocation of their collective's net income, which was distributed on the basis of work points. The agricultural sector was not regulated from the centre in the same detail as heavy industry. The main economic concern with agriculture was that it deliver its quotas of food and raw materials to feed the urban population, to supply industry, and to earn foreign exchange. Taxes in kind and forced sales to the government at low fixed prices were the mechanisms to obtain the necessary agricultural quotas.

The First Five-Year Plan was a solid success (see Table 6, p. 69 above)--GNP increased from 67 billion dollars, or 117 dollars per capita, in 1952 to 94 billion dollars, or 147 dollars per capita, in 1957. The small industrial base inherited by the Peking Government and located mainly in Manchuria and a few major port cities was rapidly expanded, and a beginning was made on the development of major industrial centres in the interior. Overall industrial production

doubled, led by advances in key industrial materials, such as coal, steel, cement, and crude oil. Agricultural output increased somewhat faster than population (20 per cent versus 12 per cent) during the First Five-Year Plan. China's economic strategy was to concentrate investment in heavy industry, and agriculture was left more or less as a "holding operation". Growth in agricultural production during these five years seems to have been based on continued improvements in irrigation and flood control, on additional gains realized from the return of the countryside to a more stable environment after decades of disaster and disorganization, and on the resumption of traditional and gradual improvements in structures, tools, seeds, and techniques arising from local initiatives.

The First Five-Year Plan was characterized by close economic co-operation with the USSR and Eastern Europe, as China sought assistance in its industrialization programme, and foreign trade accordingly became oriented to the CPCs. The major impetus to the drive for industrial development was furnished by the large-scale importation of machinery and equipment, much of it in the form of complete industrial installations. The Soviet Union was the chief supplier of complete plants--agreements were signed with the USSR for the construction of 291 major industrial installations in China. By the end of 1959, equipment valued at 1.35 billion

dollars had been delivered and about 130 projects were completed.²⁷ Agreements were also signed with Eastern European countries for the construction of at least 100 major projects and about two-thirds of these were completed by 1959.²⁸ In addition to supplying equipment for industrial installations, the Soviet Union provided China with valuable technical aid, including blueprints and technical information, some 10,000 Soviet technicians and advisers, and training for 15,000 Chinese technical and academic students in the USSR. However, actual development assistance from the USSR was relatively small. Of the 1.4 billion dollars in long-term Soviet loans extended to China, only 430 million dollars were specifically for economic development.²⁹

China's swift progress in industrialization during

²⁷Usack and Batsavage, "International Trade of the PRC", p. 344.

²⁸Ibid.

²⁹China has acknowledged the receipt of long-term loans from the USSR in the 1950s amounting to 1,405 million dollars, viz.: (1) a 300 million dollar loan granted in 1950 for the purpose of Chinese economic development; (2) another loan of 130 million dollars in 1954, also for economic development; (3) a loan in 1955 covering the transfer to China of Soviet holdings in four joint-stock companies and other Soviet-owned assets in China believed to total 330 million dollars; and (4) other miscellaneous credits totaling 645 million dollars, probably used mainly for military purposes. In addition, the USSR provided economic aid to China after the Leap Forward by funding 320 million dollars of outstanding short-term debts in 1961 over a five-year period and by extending a loan of 46 million dollars for the importation of 500,000 tons of Cuban sugar.

the First Five-Year Plan was a direct result of the flow of machinery and equipment, and technical assistance from the USSR and Eastern Europe. Production in heavy industry expanded rapidly. Imports of technology not only developed China's basic industry but also laid the groundwork for the production of sophisticated items such as jet aircraft, large electrical generating equipment, and machine tools. In addition, Soviet technical information and Soviet training of Chinese technicians provided the base upon which the advanced weapons programme of the 1960s was ultimately developed.

Foreign trade grew rapidly from 1.9 billion dollars in 1952 to 3.1 billion dollars in 1957 (see Table 8, p. 84 above)--about two-thirds of it with the CPCs. The USSR was China's leading trading partner, accounting for 66 per cent of China's trade with the CPCs and 42 per cent of China's total trade in 1957. Likewise, China became one of the USSR's leading trading partners, accounting for 15-20 per cent of total Soviet trade between 1955 and 1959. Sino-Soviet trade during the First Five-Year Plan was the classic case of the principle of comparative advantage: machinery and equipment dominated Chinese imports from the USSR while Chinese exports consisted largely of foodstuffs, industrial raw materials, and consumer goods, mainly textiles and clothing. The Soviet Union's willingness to accept large amounts of

Chinese raw materials and consumer goods was an important factor in China's economic development because it allowed the PRC to pay promptly for much of its machinery and equipment imports. China's trade deficits with the USSR during the first part of the five-year plan were funded by long-term Soviet economic credits and short-term clearing credits. After 1955, China ran a surplus in Soviet trade; nevertheless, China's net trade deficit with the USSR during the period still amounted to 560 million dollars.

Sino-Eastern European trade increased quickly from a negligible base to 17 per cent of China's total trade in 1957. East Germany and Czechoslovakia accounted for about two-thirds of this trade and Poland and Hungary for most of the remainder. Chinese trade deficits were probably financed through short-term clearing credits and perhaps some long-term credits, although no long-term credits are specifically known to have been extended to China by Eastern European countries. Eastern Europe ranked second to the USSR as a supplier of machinery and equipment to China. From 1950 to 1959, China imported about 1.7 billion dollars worth of machinery and equipment from Eastern Europe, approximately 40 per cent of total Chinese imports of machinery and equipment. As with the Soviet Union, China was able to pay for most of these goods through exports of raw materials and foodstuffs to Eastern Europe.

Trade with the other CPCs was a small part of China's total trade, and was based on China's economic assistance to North Korea, North Vietnam, and Mongolia, with much of China's export surpluses representing aid deliveries. This produced the anomaly of China receiving economic development aid from the USSR while at the same time conducting a foreign aid programme of its own--China began its aid programmes in the CPCs and the LDCs in 1953 and 1956, respectively.

China's trade with the DMCs and the LDCs bottomed out in 1954, but subsequently began to increase as Western restrictions on Chinese trade were relaxed and as China sought alternate sources of supply for industrial goods not readily available from the CPCs. However, in 1957, the 1.1 billion dollars in trade with these countries still represented only about one-third of China's total trade.

4. Great Leap Forward, 1958-1960

The Second Five-Year Plan, which was to have begun in 1958, was superseded by the Great Leap Forward--a frenzied attempt at instant industrialization. Instead of being content with the excellent strategy and considerable gains of the First Five-Year Plan, the Chinese Government became impatient with the pace of growth and dissatisfied with the slavish imitation of the Soviet model. The policy of a forceful but rapid expansion in heavy industrial capacity was replaced by a policy of squeezing a decade of industrialization into one or two years. China was supposed to take advantage of its huge and allegedly

under-used labour force and to "walk on two legs", i.e. expand forcibly in its primitive as well as its modern sector. Managers of industrial plants were ordered to meet greatly increased quotas at any cost, and machines and workers were driven mercilessly to meet these quotas regardless of the effect on quality or the balance of raw materials and finished products. Thousands of small backyard "steel" furnaces, primitive fertilizer plants, and tiny coal pits were opened--much of their production was of little use in spite of huge inputs of labour and raw materials.

The Leap Forward policies in the agricultural sector were different in form but equally disastrous as those in industry. In 1958, Peking ordered the instantaneous formation of even larger agricultural collectives, or communes. An average of 25,000 people were lumped together in each of these all-purpose units, which were to take charge not only of agriculture but also of rural industry, transportation, trade, finance, and militia. The commune was intended to be a more effective unit for mobilizing great multitudes of workers for labour-intensive projects. In addition, irresponsible agricultural policies dictated from the centre--such as directives for deep ploughing and close planting of crops and for hasty irrigation projects, regardless of local conditions and accumulated local wisdom--compounded the confusion in the countryside. To make matters worse, the bumper harvest of 1958 was followed by three years of bad weather.

From the beginning, the Soviet Government disagreed with China's claim that the Leap Forward was a faster road to the advanced stage of pure communism. The Chinese, on their part, began to ignore the advice of the resident Soviet experts and even tried to indoctrinate them in the Chinese side of the festering political dispute. Consequently, in the summer of 1960, the Soviets abruptly withdrew the 1,200 technicians then in China. The withdrawal of Soviet aid was a serious shock to the Chinese economy already overstrained by the Leap Forward. At that time, only about one-half of the scheduled 300 Soviet aid projects were completed: about 20 per cent of the projects begun before the 1958 agreement were incomplete and most of those agreed upon in 1958 and 1959 were still in the planning stages. Work on projects under construction ground to a halt--the blueprints went back to the USSR with the technicians--and production in some plants already in operation was curtailed because of the lack of Soviet experts and ready access to Soviet replacement parts.

The overall result of the Leap Forward policies and Peking's impercipient attempt to operate far beyond maintainable production levels during these years was a dismal failure for the Chinese economy (see Table 6, p. 69 above)--GNP increased to 113 billion dollars, or 172 dollars per capita, in 1958, but by 1961 had fallen to 82 billion dollars, or 118 dollars per capita. The collapse of the Leap Forward was a compound of many factors which might be summed up under three headings:

errors in industrial and agricultural policies, poor harvests, and Soviet withdrawal. The economic results for the industrial sector were a spectacular but unsustainable jump in industrial production in 1958-1960, then a quick collapse back to the 1957 level in the following year. Three years of frantic effort left the industrial labour force exhausted, a large part of capital plant damaged through abuse, and inventories encumbered with huge piles of useless output. In the agricultural sector, the combination of man-made and natural disasters caused agricultural production and food supplies to plummet. By the winter of 1960-1961, the average amount of food available per capita had dropped 25 per cent below the already meagre diet, and people were starving over wide areas of China.

The decline of the economy to just above the 1957 level of industrial production and to a level of agricultural production considerably below 1957--even more so in per capita terms--was a dangerous break in the economic momentum built up since 1949. First, the Leap Forward wasted three years during which the margin that had been opened between total output and basic subsistence could have been substantially widened. Second, the Leap Forward squandered the popular pride in China's national achievements and the popular willingness to accept a meagre existence as the price of national prominence. Both cadres and the ordinary workers and peasants began to give much more weight to their own individual interests. Third, the Leap Forward interrupted the strategy of trading

part of China's increased production of raw materials for Soviet machinery and technology. If China had found it possible to wait seven more years, the whole integrated group of 300 Soviet aid plants would have been on-stream. As it was, great new industrial plants were without customer plants or supplier plants, or without expert advisers.

China's foreign trade was adversely affected by the disturbances in the domestic economy (see Table 8, p. 84 above). With the attempt at instant industrialization during the Leap Forward, total trade advanced to a peak of 4.3 billion dollars in 1959. The economic collapse following the Leap Forward and the withdrawal of Soviet aid in 1960 caused trade to plunge to 2.7 billion dollars in 1962. The 1959 level of trade was not exceeded until 12 years later.

5. Second Five-Year Plan, 1961-1965

The Second Five-Year Plan featured a complete reversal of economic policies in an effort to prevent a breakdown of the entire economy. The excesses of the Leap Forward were quickly abandoned and emergency measures were taken to restore the food supply: (1) medical teams were dispatched and food stocks were released to aid the most seriously affected areas; (2) the work pace was sharply reduced in order to permit people to recover their health and expend less energy; (3) the peasants' private plots, which had been abolished by the commune programme, were revived; (4) large acreage was shifted from cotton to

grain; and (5) the annual importation of over five million tons of wheat, primarily from Canada and Australia, was begun in 1961. The wheat imports were a convenient way of feeding the large cities of the northeast and also reduced the internal tensions associated with the extraction of another five million tons of grain from the agricultural sector.

In addition to these emergency measures, the government changed two fundamental agricultural policies: one involving the basic organization of agriculture and the other involving the basic allocation philosophy toward agriculture. As for organization, the commune was practically abandoned except in name. Its nonagricultural functions were returned to the central bureaucracy and the commune was reduced to one-third of its former size. The programmes under which it had compelled thousands of peasants into gigantic public works projects were suspended or abandoned. The ridiculous farming techniques imposed from the centre were dropped and the routine decisions on agricultural operations were made the responsibility of the commune's smaller constituent units--the production brigades of approximately 1,000 people, and the production teams, each a village of about 150 people. As for allocation philosophy, instead of being forced to supply its own resources for investment, the agricultural sector began to receive a steadily growing volume of inputs from the industrial sector--chemical fertilizer; pesticides; irrigation equipment; tractors, trucks, and other farm equipment; and technology in the form

of better seeds and growing methods. This new policy was conscientiously implemented starting in 1962.

The changes in industrial policy were equally swift and dramatic. The thousands of small-scale industrial installations producing steel, chemical fertilizer, and machinery were closed down, and industrial investment was sharply curtailed. A substantial portion of industrial capacity had been idled after the collapse of the Leap Forward because of shortages of raw materials, the withdrawal of the Soviet technicians, the food crisis, and the chaos in planning and management. Thus, no further investment was needed in many branches of industry. The small amount of investment resources available was logically concentrated on a narrow range of priority industries, including the petroleum refining, chemical fertilizer, and advanced weapons industries. As a corollary to the changes in agricultural policy, the industrial sector began to place more emphasis on activities supporting the agricultural sector.

The readjustment of economic policy during the Second Five-Year Plan achieved its objectives (see Table 6, p. 69 above)--GNP increased from 82 billion dollars, or 118 dollars per capita, in 1961 to 134 billion dollars, or 179 dollars per capita, in 1965. In the agricultural sector, production expanded by almost one-half between 1961 and 1965, a minimum level of food consumption per capita was re-established, and sufficient agricultural investment was provided to accommodate the continued rise in population. In the industrial sector,

production grew by 84 per cent between 1961 and 1965, useless industrial output was stopped, and primitive industrial facilities were abandoned. On the positive side, a number of priority industries expanded rapidly in this period. By 1965, for example, China had become self-sufficient in crude oil. The armaments industry was another pace-setter--it was during this period (in October 1964) that China exploded its first nuclear device. A number of the old Soviet aid projects were revived, and Japan and Western Europe began to supply key industrial equipment and technology.

Foreign trade during the first part of the Second Five-Year Plan reflected the economic difficulties of the Leap Forward period. In 1961 and 1962, exports fell as agricultural and industrial production declined, and imports were cut back sharply (see Table 8, p. 84 above). However, following the reversal of economic policies and the consequent recovery of the economy, the volume of trade rose to 3.9 billion dollars by 1965, but was still 10 per cent below the peak level of 1959.

China's trade in this period was typified by the deepening of the Sino-Soviet rift and the radical shift in the direction of foreign trade (see Table 9, p. 86 above). Despite the overall increase in the volume of trade, the CPCs' share continued to decline in absolute terms--to 1.2 billion dollars in 1965--as China reoriented its trade to the DMCs and the LDCs. Whereas in 1957 the CPCs accounted for about two-thirds

of China's trade, by 1965 they accounted for only 30 per cent.

Chinese trade with the individual CPCs generally mirrored the political leanings in the Sino-Soviet dispute. Trade with the USSR steadily declined from a peak of 2,055 million dollars in 1959 to 415 million dollars in 1965. China maintained sizable export surpluses with the USSR in order to liquidate its debt to the Soviet Union. Deliveries of complete plants dropped sharply after 1960, and much of the machinery and equipment purchased from the USSR consisted of spare parts and replacements for Soviet-made equipment. Sino-Eastern European trade also dwindled, from the 1958 peak of 700 million dollars to 160 million dollars in 1964, and subsequently recovered to 205 million dollars in the following year.

Trade with the other CPCs showed a mixed pattern as a result of the Sino-Soviet dispute. Total trade with the CPCs in Asia declined to 220 million dollars in 1965 as economic relations with Mongolia and North Korea deteriorated because of their political leanings toward the USSR. Albania broke with the Soviet Union and became China's ally in the Sino-Soviet dispute. As a result, trade with Albania rose rapidly over the insignificant levels of the 1950s to 95 million dollars in 1965. Sino-Cuban trade grew quickly to 223 million dollars in 1965, following the establishment of the Castro Government, as China competed with the USSR as a foreign aid donor.

The changeover to the DMCs and the LDCs as trading partners was rapid. By 1963, they accounted, for the first time, for over one-half of China's total trade, and by 1965, for 70 per cent. At the end of the Second Five-Year Plan, trade with the DMCs had reached 1.5 billion dollars, and trade with the LDCs, 1.2 billion dollars.

The Second Five-Year Plan also registered some changes in the commodity composition of China's foreign trade (see Tables 10-11, pp. 88-91 above). By 1965, China imported much greater quantities of foodstuffs, less machinery and equipment, and no petroleum. The Chinese export mix did not change so greatly, although foodstuffs and textiles became less important and exports of light manufactured goods grew considerably.

Food shortages in the early 1960s forced China to import large quantities of grain for the first time. Grain imports became a regular feature of Chinese trade, reaching a peak of 6.8 million tons, or 475 million dollars, in 1964. Canada and Australia were the major suppliers, and France, Argentina, and Mexico were minor suppliers. Imports of chemical fertilizer also became a major feature of China's trade during this period, increasing to 2.3 million tons, or 145 million dollars, in 1965. These imports were part of China's programme for the development of the agricultural sector and were used to supplement domestic fertilizer production. Most of the purchases came from Japanese and Western European

producers. The large-scale importation of grain and fertilizer placed a sizable burden on the Chinese economy. The annual expenditure of approximately 400 million to 500 million dollars on these two items restricted China's ability to import capital goods--the level of machinery and equipment imports in 1965 was only one-third of the 1959 level.

With the recovery of the economy underway in 1963, China began to buy complete plants from the DMCs. During the period 1963-1966, contracts for more than 50 complete industrial installations worth more than 200 million dollars were signed with Japan and Western European countries.³⁰ Most of these plants were for the chemical and steel industries, and some were financed by medium-term credits and included the services of Western technicians. The acquisition of complete plants from the DMCs not only added to China's productive capacity, but also provided China with modern technology and possibly with prototypes to copy.

6. Great Proletarian Cultural Revolution and Third Five-Year Plan, 1966-1970

By 1966, the moderate policies of the Second Five-Year Plan had not only resulted in a strong economic recovery, but had also led to the spread of conditions and attitudes among the general population which were contrary to the ideological

³⁰Usack and Batsavage, "International Trade of the PRC", p. 349.

concepts of certain factions within the Chinese Government, particularly those of Chairman Mao Tse-tung. For example, the large party and economic bureaucracies had become more solidified and less responsive to Mao's ideas and educational campaigns. In addition, the motivation of workers and peasants had shifted from devotion to the communist revolution and pride in China's new national structure to material considerations such as bonuses and perquisites in the industrial sector, private plots and private trade in the agricultural sector, and a less austere style of life in general. Furthermore, the new generation of youth had never experienced any contact with actual revolution and the greatly expanded educational system³¹ was thought to be instructing the youth in an increasingly bourgeois fashion.

In response to these developments, Mao inaugurated an intensified "socialist education campaign", labelled the Great Proletarian Cultural Revolution (1966-1969), to restore his authority and impose his line of thought upon the various

³¹Education in the PRC is divided into three basic levels: primary, middle, and higher. Children attend primary schools at ages seven to 10, studying a basic five-course curriculum for six hours, five days a week. Middle schools are divided into junior and senior schools according to age and curricula. Higher educational institutions, which are restricted to people over 20 with working experience, are comprised of hundreds of scientific and technical institutes, and a relatively small number of universities.

party and government departments. He was supported in his quest for ideological purity by Defence Minister Lin Piao and the People's Liberation Army. The first year of the Cultural Revolution was marked by attacks on Mao's enemies in the cultural and propaganda fields and in the Peking municipal government, then the closure of the universities and technical institutes, and finally the mobilization of millions of young Red Guards, who were given the mandate to carry Mao's revolutionary message throughout the country.

The Cultural Revolution reached its apogée in 1967-1968 when the Red Guards went on a virtual rampage that continued sporadically for the better part of two years. They invaded party and government offices, and factories and workshops to drag out the "capitalist remnants" who were opposing Chairman Mao. Street fighting between moderate and radical factions assumed grave proportions in several major cities. Moreover, the Cultural Revolution was an extremely serious phenomenon for the thousands of people who lost their lives and for the multitude of top party and government officials, and educators who lost their positions--many of whom were publicly humiliated, physically assaulted, subjected to merciless interrogation, and dispatched to tours of hard labour in remote areas.

In mid-1968, the Red Guards were decommissioned as the instrument of revolution and the People's Liberation Army began to play an increasingly important role, not only in restoring

order but also in participating in the management of factories, research institutes, and government bureaus. Even so, the Cultural Revolution continued to flare up intermittently until the Ninth Party Congress in April 1969, which declared the Cultural Revolution a success. By 1970, the workers, managers, and technical people had settled down to work again and regular economic planning was resumed.³²

The Cultural Revolution had no appreciable effect on the economy in 1966 (see Table 6, p. 69 above). In spite of the political turmoil, the economic expansion continued as GNP increased to 145 billion dollars, or 190 dollars per capita, and both industrial and agricultural output made substantial gains. Because the Red Guards were mainly students, their political activities were not at the cost of national output. Minor economic losses resulted in the second half of the year when rail facilities were temporarily clogged by groups of itinerant Red Guards and when reserve stocks of food and clothing were depleted.

The entry of the Cultural Revolution into the factories and economic bureaus in 1967 launched two years of chaos

³²The Third Five-Year Plan (1966-1970) was first mentioned by Premier Chou En-lai in December 1964 and by People's Daily in January 1966 but disappeared from public notice during the Cultural Revolution. No public announcement of the resumption of regular economic planning was made until Chou's speech on the eve of National Day in late 1970 when he exhorted China's workers and peasants to make 1970 a banner end year for the Third Five-Year Plan and a strong base for the Fourth Five-Year Plan (1971-1975).

in the nonagricultural parts of the Chinese economy. The expansion of the industrial sector was hindered by sporadic work stoppages, shortages of raw materials, and shutdowns of major facilities for several weeks or even months, and severe shortages of coal and electric power in limited areas for short periods of time. In addition, problems with the transportation system caused the disruption of schedules and delays in the delivery of raw materials and finished products. Furthermore, economic planning was hurt by the dismissal of many high-level officials and the consequent inability to take new planning initiatives. As a result, GNP decreased to 141 billion dollars, or 180 dollars per capita, in 1967, and industrial production dropped 13 per cent in 1967 as both military and civilian production suffered steep declines.

The substantial loss in industrial output in 1967 constituted the main short-term economic effect of the Cultural Revolution. However, the construction of new plant facilities, although subject to shortages and delays similar to those bedeviling industrial production in general, continued at a high rate during the Cultural Revolution. One helpful factor was that the great new construction projects were normally located far away from the most severe of the urban disturbances. Regardless of precisely how far the Cultural Revolution may have reduced the volume of construction below the planned level, considerable capacity was nevertheless added to industry during this period.

The dislocations of economic activity practically ceased in 1969, even though sharp political infighting continued during the long months in which the shattered party and government bureaucracies were being rebuilt. With the dénouement of the Cultural Revolution in 1969 and the resumption of regular economic planning in 1970, GNP recovered to 179 billion dollars, or 214 dollars per capita, in 1970. Industrial production increased by more than one-half between 1967 and 1970, as the economy began to utilize the substantial amounts of excess capacity which had been built up over the past few years and as new industrial facilities came into operation, many in new industrial centres in the interior.

The Cultural Revolution was mainly an urban phenomenon and barely touched the agricultural sector. The flow of inputs of fertilizer and equipment into the agricultural sector continued to increase, although at a slower pace than anticipated because of disruptions in industry and transportation. Extremely good weather in 1967 led to a record level of agricultural production in that year--a fortunate occurrence for the government since the problems of procuring and distributing food were greatly eased at the very time the government administrative apparatus was being badly shaken. However, agricultural output slumped in 1968 at the height of the Cultural Revolution disturbances, but by 1970 had quickly rebounded and surpassed the level of 1967, as economic growth was revived and political

and social conditions were returned to normal.

The three-tiered level of organization in agriculture--the smaller commune, the production brigade, and the production team--remained the same throughout the Third Five-Year Plan. As part of the Cultural Revolution, tremendous propaganda campaigns scorned material incentives and private activity in the rural sector. The radical factions, however, were not allowed to interfere with the private plots, private trade, and rural handicrafts in practice. So long as there were no blatant extensions of existing private activity in the countryside, peasants were allowed to supplement their diets and incomes through private activity.

In retrospect, the Cultural Revolution did far less damage to China's economy than that other great political upheaval, the Leap Forward. While the Leap Forward left capital plant ruined, the agricultural sector in chaos, and the people starving; the Cultural Revolution caused only a short-lived dip in industrial production in 1967, closed down the system of higher education for four years, and hardly affected the agricultural sector. The Leap Forward caused severe damage to the momentum of China's economic development and to its standard of living. The Cultural Revolution, on the other hand, caused only temporary damage to China's development momentum and just slight damage to its living standards. Of greater significance, the political and social turbulence of the Cultural Revolution did not prevent the

considerable expansion of industrial capacity. Construction continued on new military-industrial facilities and the investment programme in agriculture was maintained at a high level.

China's foreign trade during the Third Five-Year Plan reflected the continuation of the economic recovery in 1966, the adverse effects of the Cultural Revolution in 1967-1968, and the revival of economic growth in 1969-1970. By 1966, total trade had reached 4.2 billion dollars, just under the peak level of 1959 (see Table 8, p. 84 above). Chinese exports in 1967 were affected by the dislocations in industry and transportation, and declined by 265 million dollars. On the other hand, imports dropped by only 85 million dollars as the Chinese continued to fulfill their import commitments. In order to correct the trade imbalance that had occurred in 1967, the Chinese reduced imports and maintained the same level of exports in 1968 despite the continuation of disruptions caused by the Cultural Revolution. This trend continued into 1969 when the restoration of order provided the impetus for a sizable increase in exports and in total trade. By 1970, the volume of foreign trade had returned to the 1966 level as part of the general rise in economic activity. An upsurge in industrial production and capital construction was the prime force behind the large increase in Chinese imports in that year. However, exports did not keep pace with imports and a deficit of 130 million dollars was incurred in 1970.

The Cultural Revolution affected foreign trade primarily by reducing the availability of commodities for export due to both production and transportation problems. One of the clearest indications of the effect of internal problems was the large reduction in coal exports to Japan--China's coal industry was particularly troubled by labour problems in 1967-1968. On the whole, however, there was little change in the commodity composition of exports. A secondary effect was the reduction of imports in order to balance trade. For example, machinery and equipment imports fell sharply from 455 million dollars in 1966 to 240 million dollars in 1969, reflecting the decrease in capital construction and the hiatus in new contracts for complete plants. The Chinese increased imports of some commodities, however, partly to overcome shortages caused by disruptions in domestic production. Among these commodities were chemical fertilizer, iron and steel products, and nonferrous metals. The agricultural sector was not seriously affected by the Cultural Revolution and grain imports were reduced during this period.

The commodity composition of China's imports during the Third Five-Year Plan was highlighted by the shift from foodstuffs to manufactured goods (see Table 11, p. 90 above). Iron and steel products and nonferrous metals were the primary recipients of the increase in manufactured goods--iron and steel imports nearly tripled and nonferrous metal imports more than quadrupled. Fertilizer imports also increased signifi-

cantly as China continued to depend on foreign supplies for a large part of its fertilizer needs. Textile fibre imports declined, mostly because of a large reduction in imports of raw cotton. The drop in cotton imports was due to improvements in domestic production.

On the export side (see Table 10, p. 88 above), foodstuff exports in 1965 surpassed imports for the first time since 1960, and by 1970, exports of foodstuffs were more than 80 per cent above the level of imports. Other categories of exports did not change significantly from 1965 to 1970. Exports of textile fibres and textile yarn and fabric increased but clothing exports declined. Exports of oilseeds and non-ferrous metals remained depressed throughout the period as China's production barely kept up with internal needs.

The most notable characteristic of the direction of China's foreign trade during the Third Five-Year Plan was the continuation of the trend toward trade with the DMCs (see Table 9, p. 86 above). By 1970, they accounted for an even larger proportion of Chinese trade--over one-half--than in 1965, as trade with the CPCs, especially with the USSR, fell further (to about 20 per cent of total trade). Despite the general decline in CPC trade, Eastern Europe's portion of Chinese trade rose slightly during this period. Trade with the LDCs, particularly with Latin America and Southeast Asia, also decreased in absolute terms, but managed to maintain its share of China's foreign trade at between one-quarter and one-third

of the total. The decrease in trade with Latin America was mainly due to the fact that China stopped importing corn from Argentina. The severance of diplomatic relations with Indonesia and a consequent decline in trade accounted for most of the decrease in Southeast Asia.

The largest increases in China's foreign trade during the Third Five-Year Plan were with the DMCs, especially with Japan and Western Europe. Trade with the DMCs increased to 2,230 million dollars, or 53 per cent of China's total trade, in 1970--accounting for over two-thirds of China's imports but only one-third of its exports. Since the 1950s, China has incurred annual deficits in this trade. To a large extent, these large trade deficits with the DMCs have been offset by trade surpluses with the LDCs, particularly with Hong Kong and Macao. During the Third Five-Year Plan, the years in which this offset did not take place (1967-1968 and 1970) brought action by the Chinese to redress the situation by reducing imports and expanding exports.

7. Fourth Five-Year Plan, 1971-1975

Despite a series of minor political upheavals,³³ the Fourth Five-Year Plan featured a return to regular economic planning, which had been partly paralyzed by the Cultural Revolution, and a continuation of the policy of balanced economic growth. This policy is based on the principle of "taking agriculture as the foundation and industry as the leading factor", with the order of priority in the national economic plan being "agriculture, light industry, and heavy industry".³⁴ The actual performance of the Chinese economy during the period has been encouraging (see Table 6, p. 69 above)--GNP increased from 179 billion dollars, or 214 dollars per capita, in 1970 to 223 billion dollars, or 243 dollars per capita, in 1974.

³³The political crises included the Lin Piao affair in 1971 (which culminated in the death of the then Minister of Defence, and Chairman Mao Tse-tung's heir apparent, and the subsequent purges of his followers) and the "anti-Confucius, anti-Lin Piao" campaign of 1973-1974 against reliance on material incentives and foreign technology, i.e. the pragmatic economic policies of Premier Chou En-lai. The deaths of Premier Chou and Chairman Mao in 1976 added to the uncertainties about China's political future. However, none of these events have so far had any discernible impact on the Chinese economy.

³⁴These quotations appear repeatedly in official Chinese periodicals and journals, such as People's Daily, Peking Review, and Red Flag, and in numerous speeches, editorials, and articles. For example: Wu Ching-wen, "Socialist Planned Economy--Notes on Studying Political Economy", Peking Review, No. 11, March 16, 1973, pp. 7-8.

The course of industrial development during the Fourth Five-Year Plan has been dominated by three themes: (1) the narrowing of the gap between output and available capacity, (2) the even greater emphasis on agriculture-support activity, and (3) a sharp rise, followed by a substantial decline, in output of the defence sector. In 1969, when the Cultural Revolution was winding down, China's industrial capacity was considerably larger than actual industrial output. The gap between capacity and output was the result of the downturn in output caused during the Cultural Revolution by dislocations in industrial planning and management, interruptions in raw material supply, and factionalism within factories; and the considerable additions made to productive capacity during these turbulent years. Even though the Cultural Revolution slowed down output of construction materials and sometimes delayed work at construction sites, the fact remains that these represented only partial setbacks in a huge investment effort.

The process of putting the extra capacity to work got underway in 1969, when production rebounded from the 1967-1968 trough. The next year, 1970, also saw a sizable rise (18 per cent) in output. Growth over the next four years dropped back toward a less spectacular--but still quite respectable--growth rate of about eight to nine per cent.

The shift in economic strategy toward even greater emphasis on the agricultural sector (see p. 136 below) has

important implications for the course of Chinese industrial development. For example, much of the tremendous increase in contracts for Western industrial plants (1.2 billion dollars in contracts in 1973 and another 850 million dollars in 1974, compared to only 60 million dollars in 1972)³⁵ was not designed to increase the machine-building or mining capacity of the PRC, but rather to expand severalfold the capacity to produce chemical fertilizer and artificial fibres. The pressures in 1974 on supplies of coal and electric power were the result of the failure to open large new coal mines in recent years, and the attempt to raise output from existing mines by more intensive application of labour has increasingly run into diminishing returns. The restraint on investment in new mining and machine-building capacity is tied implicitly to the priority of investment in industrial branches that directly support agriculture.

Production and procurement of military hardware in 1974 continued at the same general level as in 1972-1973, or at approximately 25 per cent below the peak level of 1970-1971.³⁶ Although the reason for the cutback in military production is not clear, it probably stems from a combination of: the priority accorded the "agriculture first" policy, the curtail-

³⁵Ashbrook, "China: Economic Overview, 1975", p. 31.

³⁶Ibid.

ment of production of certain types of naval vessels and obsolescent aircraft while new models are being readied, and the decline of the political strength of the military since Lin Piao's abortive coup in the fall of 1971.

Economic policy during the Fourth Five-Year Plan continued to favour the important agricultural sector. In 1972, the government embarked on a long-term agricultural improvement programme in order to free China of the necessity of importing grain and chemical fertilizers. Between November, 1972 and May, 1974, the PRC contracted for 13 large urea plants from Japanese, Western European, and United States sources at a total cost of 500 million dollars.³⁷ Output from these plants, if expeditiously supplemented by improved water control facilities and increased supplies of other types of fertilizer, was expected to boost agricultural output to a new higher plateau by 1980. For example, the production of grain in 1980 would be as much as 30 per cent above the 1974 level. Thus, the need for imports of grain and nitrogen fertilizers could be eliminated, even in poor crop years.

In the meantime, however, China continued to import sizable quantities of grain. In 1972, grain imports were 4.8 million tons and in 1973, a record 7.7 million tons. Purchases in 1974, originally scheduled at more than nine million tons,

³⁷Ibid., p. 29.

were reduced to seven million tons.

Agricultural production during the Fourth Five-Year Plan increased at an annual average rate of two per cent. In particular, the grain crop increased from 240 million tons in 1970 to 255 million tons in 1974. Weather was average to somewhat below average in both 1973 and 1974. The continued increase in the effectiveness of the water control system and the general increase in inputs into agriculture constitute the key elements in the long-term upward trend in farm output.

Trends in Chinese foreign trade in the 1970s seem to be more of a continuation from those of the 1950s than from those of the 1960s (see Tables 8-11, pp. 84-91 above). Both exports and imports have risen rapidly following the recovery from the disruptions caused by the Cultural Revolution. Machinery and equipment imports increased markedly in the early 1970s to meet the requirements for industrial expansion called forth in the Fourth Five-Year Plan. Substantial increases in agricultural purchases also contributed to a rise in total imports in 1972 and 1973. Foreign trade was facilitated by China's more open position toward the West, including the United States, following the "ping pong" diplomacy in the spring of 1971. Between 1970 and 1973, total trade rose faster than GNP--the first time since the 1950s.³⁸ Trade turnover

³⁸From 1970 to 1973, Chinese trade grew by 134 per cent in current terms and 53 per cent in real terms, compared to an increase of 21 per cent in real GNP. Chen, "China's Foreign Trade, 1950-1974", p. 620.

in 1974 grew 39 per cent in dollar value--to 13.7 billion dollars--but increased only three per cent in real value.³⁹

China's export expansion efforts during 1974 encountered some difficulties caused by the world-wide recession, and perhaps to a lesser extent, by congestion in Chinese ports which led to delays in exports. At the same time, China's capacity to import large quantities of agricultural products and of machinery and equipment may have reached a plateau in 1974 since these massive imports, coupled with a slowdown in exports, probably resulted in a foreign exchange shortage. In an effort to reduce trade deficits for 1974, some imports were cut back during the final quarter of the year. Successive good harvests in 1973 and 1974 also permitted China to cancel or delay the importation of certain agricultural products scheduled for 1974.

³⁹Ibid.

CHAPTER III

CHINA'S FOREIGN AID PROGRAMMES

Since the early 1950s, the PRC has extended over six billion dollars of economic assistance and at least 1.5 billion dollars of military assistance to the developing countries. Sections 1 and 2 describe China's economic assistance programmes in the LDCs and in other CPCs, respectively. Economic aid to the LDCs totalled more than 3.5 billion dollars between 1956 and 1974, African countries receiving over one-half of the total. Although the aid was spread among 47 LDC recipients, over one-quarter of it was directed to only three countries--Pakistan, Tanzania, and Zambia. China's economic aid programme in other CPCs was even more concentrated. Only seven countries received 2.7 billion dollars of aid between 1953 and 1974, and North Vietnam accounted for more than one-half of this amount. China's trade with developing countries is examined in Section 3. Chinese trade with the LDCs rose to 3.7 billion dollars in 1974, accounting for about one-quarter of total trade. Furthermore, the PRC earned a 1.4 billion dollar surplus on this trade, which helps to offset the large trade deficit with the DMCs. Technical assistance, which is dealt with in Section 4, is a major element of China's foreign aid programme. The number of Chinese technicians sent abroad under technical assistance programmes has grown to sizable

magnitudes over the years, reaching almost 23,000 in 1974. Section 5 outlines the PRC's military assistance programme, which is small in relation to the size of its economic assistance programme. China has extended about 550 million dollars of military aid to the LDCs and at least 900 million dollars to other CPCs.

1. Economic Assistance to the LDCs

From the start of its economic assistance programme in the LDCs in 1956 until the end of 1974, China committed approximately 3.5 billion dollars of economic aid to 47 countries (see Table 12); almost one-half of this amount has actually been disbursed.¹ Over two-thirds of the total extensions have been made available since 1970 and more than one-half has gone to African nations.² Furthermore, over one-quarter of the total went to only three countries--Pakistan, Tanzania, and Zambia--and more than 10 per cent was committed to a single project, viz. the Tanzania-Zambia (Tan-Zam) Railroad. The PRC has also provided the equivalent of about one billion dollars of grant aid in the form of free technical

¹For more information on actual disbursements of Chinese aid, see Chapter V, pp. 264-272 of this thesis.

²Excluding Egypt, which is included in the figures for aid to the Middle East.

TABLE 12
 VOLUME OF CHINA'S ECONOMIC AID COMMITMENTS
 TO THE LDCs, 1956-1974
 (Millions of US Dollars)

Year	Volume
1956	57
1957	16
1958	35
1959	2
1960	74
1961	107
1962	17
1963	88
1964	383
1965	73
1966	119
1967	50
1968	54
1969	10
1970	709
1971	515
1972	553
1973	428
1974	242
Total ^a	3,532

Source: Table 13, p.147, of this thesis.

^aIn addition, China has provided the equivalent of about one billion dollars of grant aid in the form of free technical services to development projects.

services for development projects.³

The PRC started its aid programme in the LDCs shortly after the Bandung Conference of Afro-Asian nations in 1955. Not unlike the Chinese economy as a whole, it grew erratically during the first 19 years of its existence. The severe fluctuations in the annual level of new commitments and in the number of countries receiving Chinese aid stemmed mainly from political developments both in China and in the LDCs. However, to a lesser extent, they may also have been due to a variety of economic factors, such as the uneven pace of China's economic growth, the adverse economic effects of the Leap Forward and the Cultural Revolution (the volume of Chinese aid bottomed out in 1959 and again in 1969), and the "planned" nature of the Chinese economy.⁴

In the initial phase up to 1960, during which time China was itself still receiving economic assistance from the

³Fogarty, "China's Economic Relations", p. 734; USDS, Aid and Trade in 1974, p. 7. China does not include the value of these services in estimates of its aid undertakings, and Tables 12 and 13 of this thesis do not take them into account.

⁴The United Nations has concluded that, on a year-to-year basis, economic aid commitments from the centrally planned economies to the LDCs usually show something of a cyclical pattern, a year of heavy commitments being followed by two or more years of reduced activity, and that the peak years tend to coincide with the beginning of a new five-year plan period. In general, the annual fluctuations in the level of new Chinese aid commitments follow a similar pattern. For details, see UN, Implementation of the International Development Strategy: Papers for the First Over-all Review and Appraisal, Vol. II, p. 101; and UN, World Economic Survey, 1969-1970, p. 169.

USSR (see pp. 105-112 above), aid commitments averaged 37 million dollars annually and were provided to seven countries-- Cambodia, Egypt, Guinea, Indonesia, Nepal, Sri Lanka (formerly Ceylon), and North Yemen. About 85 per cent of total commitments went to Asian countries situated along China's southern periphery and to the Middle East. Guinea was the only African country to receive Chinese aid during this period. Although the Chinese held that aid should be provided only to revolutionary and anti-Western regimes, few of these countries met that criterion at the time.

The volume and geographic distribution of Chinese aid expanded rapidly in the first half of the 1960s as the Chinese economy recovered from the disastrous effects of the Leap Forward era and as many new African states achieved independence and became receptive to Peking's overtures. China's aid commitments to the LDCs increased to an annual average of almost 135 million dollars during the Second Five-Year Plan (1961-1965) and went to 19 recipients, of which 14 were new aid clients. The volume of economic aid passed the 100 million dollar mark in 1961 for the first time, reached a peak of over 380 million dollars in 1964, and fell back to 73 million dollars in 1965. Following Chou En-lai's seven-week visit to 10 African nations in 1963-1964, the geographic distribution of the Chinese aid programme began to shift toward Africa--an emphasis that still remains. For example, almost 40 per cent of Chinese extensions during this period went to African

nations, primarily to countries such as Algeria, Congo (Brazzaville), Ghana, Mali, Somalia, and Tanzania, which seemed to fit Peking's revolutionary criteria. In some instances, the PRC simply continued aid projects which had been started by Taiwan in African countries.

Chinese foreign aid declined sharply in the latter part of the decade as part of the PRC's diplomatic reversals on the international scene during the Cultural Revolution. Economic aid commitments averaged only 58 million dollars annually during 1966-1969 and went to 12 recipients, all of them (except for Mauritania, South Yemen, and Zambia) countries already receiving Chinese aid. The volume of new extensions reached 119 million dollars in 1966, as China began its Third Five-Year Plan, but dropped to only 10 million dollars in 1969 as a consequence of the Cultural Revolution. The trend in the geographic distribution of Chinese aid to the LDCs also suffered a temporary setback. African countries accounted for less than one-third of total commitments during the period; many of them had become suspicious of the motivation behind China's generosity and some (e.g. Central African Republic, Dahomey, and Ghana) even went so far as to sever relations with Peking or expel Chinese personnel. The majority of China's aid commitments during these years went to Cambodia, Pakistan, and the Middle East.

The 1970s have witnessed a more than doubling of the amount of Chinese economic aid extended as well as a near

doubling of the number of countries receiving Chinese aid. Since the beginning of 1970, the PRC has extended 2.4 billion dollars of economic assistance to the LDCs, bringing its total commitments since 1956 up to 3.5 billion dollars. During 1970-1974, Chinese aid to the LDCs averaged about 490 million dollars a year with the annual aid package fluctuating widely from the average. From its record 709 million dollars committed in 1970, China's aid offerings declined to 515 million dollars in 1971 and 553 million dollars in 1972, then fell further to 428 million dollars in 1973 and 242 million dollars in 1974.

The drop between 1970 and 1974 does not suggest necessarily a change in Chinese aid policy; rather it may suggest a lack of opportunities, especially in Africa, for undertaking programmes of the scale and kind China was able to initiate in the early 1970s. Moreover, the spectacular level of aid commitments in 1970 stemmed from two key extensions--a 402 million dollar pledge for building the Tan-Zam Railroad, China's largest aid project in the LDCs, and a 200 million dollar loan in support of Pakistan's Fourth Five-Year Plan. In subsequent years, all but two of the 50 separate aid allocations--110 million dollars to Somalia in 1971 and 100 million dollars to Zaire in 1973--were for amounts of less than 100 million dollars, and much of this aid is still in the pipeline to be drawn down.

The largest share of Chinese economic aid to the LDCs in the 1970s continued to go to Africa, which received

almost two-thirds of the total. Among the African nations, Tanzania and Zambia were the largest recipients, accounting for more than one-third of the total extended to the continent. They ranked after Pakistan, as second and third among all Chinese aid clients. Asia and the Middle East have received almost 30 per cent of China's total aid package in the 1970s. Pakistan accounted for almost one-half of the aid to Asian countries; Sri Lanka was the next largest Asian recipient. A 45 million dollar extension to Iran in 1971 was the only commitment to a new recipient in the Middle East. This assistance, together with additional pledges to old clients--Egypt, Syria, and the Yemens--accounted for all of the 183 million dollars of new aid to the Middle East in 1970-1974. In 1971, China made its first overtures to Latin America and since then has signed aid agreements totalling 133 million dollars. Chile, Guyana, and Peru have been the beneficiaries. Because of political changes in Chile that programme is currently dormant while little has been done toward implementing aid to Peru and Guyana. Malta is the only European country (excluding Eastern Europe) to receive Chinese aid.

Table 13 shows the geographic distribution, by year and by country, of China's economic aid commitments to the LDCs for the period 1956-1974. In addition, the following paragraphs describe briefly the type and amount of Chinese aid in each recipient country.

TABLE 13

GEOGRAPHIC DISTRIBUTION OF CHINA'S ECONOMIC AID COMMITMENTS TO THE LDCs, 1956-1974
(Millions of US Dollars)

Recipient	Per Cent																				
	Total	of Total	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Total	3,532	100.0	57	16	35	2	74	107	17	88	383	73	119	50	54	10	709	515	553	428	242
Africa	1,914	54.2	--	--	--	1	26	40	2	72	115	27	41	22	--	10	454	335	217	335	217
Algeria	92	2.6	--	--	--	--	--	--	2	50	--	--	--	--	--	--	--	40	--	--	--
Burundi	20	0.6	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	20	--	--
Cameroon	71	2.0	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	71	--
Central African Rep.	4	0.1	--	--	--	--	--	--	--	--	4	--	--	--	--	--	--	--	--	--	--
Chad	50	1.4	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	50	--
Congo (Brazzaville)	25	0.7	--	--	--	--	--	--	--	--	25	--	--	--	--	--	--	--	--	--	--
Dahomey	44	1.2	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	44	--	--
Equatorial Guinea	10	0.3	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	10	--	--	--
Ethiopia	84	2.4	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	84	--	--	--
Ghana	42	1.2	--	--	--	--	--	20	--	--	22	--	--	--	--	--	--	--	--	--	--
Guinea	78	2.2	--	--	--	1	26	--	--	--	--	--	30	--	--	10	10	--	--	--	1
Kenya	18	0.5	--	--	--	--	--	--	--	--	18	--	--	--	--	--	--	--	--	--	--
Malagasy Republic	11	0.3	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	11	--	--
Mali	35	1.0	--	--	--	--	--	20	--	--	--	10	3	--	--	--	--	--	--	2	--
Mauritania	64	1.8	--	--	--	--	--	--	--	--	--	--	--	5	--	--	--	20	--	2	37
Mauritius	35	1.0	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	35	--	--
Niger	51	1.4	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1	50
Rwanda	22	0.6	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	22	--	--
Senegal	49	1.4	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	49	--
Sierra Leone	30	0.8	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Somalia	135	3.8	--	--	--	--	--	--	--	22	--	2	neg.	--	--	--	--	30	--	--	--
Sudan	82	2.3	--	--	--	--	--	--	--	--	--	--	--	--	--	--	42	110	--	--	1
Tanzania	331	9.4	--	--	--	--	--	--	--	--	46	--	8	--	--	--	42	40	--	--	--
Togo	45	1.3	--	--	--	--	--	--	--	--	--	--	--	--	--	--	201	1	--	--	75
Tunisia	40	1.1	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	40	--	--
Uganda	15	0.4	--	--	--	--	--	--	--	--	--	15	--	--	--	--	--	--	--	--	--
Upper Volta	52	1.5	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	50	2
Zaire	100	2.8	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	100	--
Zambia	279	7.9	--	--	--	--	--	--	--	--	--	--	--	17	--	--	201	--	--	10	51
Asia & Middle East	1,440	40.8	57	16	35	1	48	67	15	16	268	46	78	28	54	neg.	255	136	202	93	25
Afghanistan	73	2.1	--	--	--	--	--	--	--	--	--	28	--	--	--	--	--	--	45	--	--
Bangladesh	11	0.3	--	--	--	--	--	--	--	--	10	--	--	--	1	--	--	--	--	--	--
Burma	84	2.4	--	--	--	--	--	27	--	--	--	--	--	--	--	--	--	57 ^b	--	--	--
Cambodia	93	2.6	23	--	--	--	27	--	--	--	--	--	43	--	--	--	--	--	--	--	--
Egypt	134	3.8	5	--	--	--	--	--	--	--	80	--	--	21	--	--	--	--	--	28	--
Indonesia	125	3.5	16	--	11	--	--	30	--	--	50	18	--	--	--	--	--	--	--	--	--
Iraq	45	1.3	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	45	--	--	--
Laos	29	0.8	--	--	--	--	--	4	--	--	--	--	--	--	--	--	--	--	--	--	25
Nepal	103	2.9	13	--	--	--	21	10	--	--	--	--	20	--	2	--	--	2	35	--	--
Pakistan	391	11.1	--	--	--	--	--	--	--	--	95	--	--	7	39	--	200	--	--	50	--
Sri Lanka	156	4.4	--	16	11	--	--	--	11	--	4	--	--	--	--	--	12	32	56	14	--
Syria	61	1.7	--	--	--	--	--	--	--	16	--	--	--	--	--	--	--	--	45	--	--
North Yemen	80	2.3	--	--	13	1	--	--	--	neg.	29	--	15	--	--	neg.	--	--	21	1	--
South Yemen	55	1.6	--	--	--	--	--	--	--	--	--	--	--	--	12	--	43	--	--	--	--
Latin America	133	3.8	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	44	89	--	--
Chile	65	1.8	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	2	63	--	--
Guyana	26	0.7	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	26	--	--
Peru	42	1.2	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	42	--	--	--
Europe	45	1.3	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	45	--	--
Malta	45	1.3	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	45	--	--

TABLE 13--CONTINUED

Sources: Wolfgang Bartke, China's Economic Aid, trans. by Waldtraut Jarke (London: C. Hurst and Company, 1975), Tables 1 and 7, pp. 10-11 and 21; Alexander Eckstein, Communist China's Economic Growth and Foreign Trade (New York: McGraw-Hill, 1966), Table E-2, p. 307; The Editor, "China's Foreign Aid in 1972", Current Scene, Vol. XI, No. 12, December, 1973, Table II, p. 5; Carol H. Fogarty, "China's Economic Relations with the Third World", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), Tables 1-2, pp. 731-732; Japan External Trade Organization, How to Approach the China Market, trans. by Press International (New York: John Wiley and Sons, 1972), Table III-8, pp. 54-55; Milton Kovner, "Communist China's Foreign Aid to Less Developed Countries", Table 1, p. 612, and Robert L. Price, "International Trade of Communist China, 1950-1965", Table 5, p. 590, both in An Economic Profile of Mainland China, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1967); OECD, Flow of Resources to Developing Countries (Paris: OECD, 1973), Tables 1 and 5, pp. 395 and 404; OECD, DAC, Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee: 1975 Review (Paris: OECD, 1975), Table IX-5, p. 178; Leo Tansky, "Chinese Foreign Aid", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Tables 1 and 5, pp. 372 and 381; Leo Tansky, "China's Foreign Aid: The Record", Current Scene, Vol. X, No. 9, September, 1972, Tables I and IV, pp. 2 and 10; UN, Department of Economic and Social Affairs, World Economic Survey, 1974, Part One: Mid-term Review and Appraisal of Progress in the Implementation of the International Development Strategy (New York: UN, 1975), Tables 65 and 69, pp. 195 and 200; UN, Department of Economic and Social Affairs, Implementation of the International Development Strategy: Papers for the First Over-all Review and Appraisal of Progress during the Second United Nations Development Decade, Vol. II (New York: UN, 1973), Annex, Table 15, p. 129; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1974, Report No. 299, January 27, 1976, Appendix, Tables 1 and 4; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1973, Research Study INR RS-20, October 10, 1974, Appendix, Tables 1 and 4; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1972, Research Study RECS-10, June 15, 1973, Appendix, Tables 1 and 4.

^aLoans originally extended to Pakistan which were used in the East Wing, now Bangladesh.

^bUnused portion of 84 million dollar loan, originally extended in 1961, that was reactivated in 1971.

neg. means "negligible".

(1) Africa

The geographic distribution of China's economic aid to the LDCs has favoured Africa. African countries comprise over three-fifths of the 47 LDC recipients of Chinese aid and have received more than one-half of the 3.5 billion dollars of economic aid extended since 1956.

Algeria.--The PRC has extended 92 million dollars in aid to Algeria. The 1971 loan (40 million dollars) was for a hydroelectric power project. The previous loans in 1962-1963 were for small-scale industrial plants, medical aid, a ceramics factory, an exhibition and fair building, a cargo ship, and transport planes.

Burundi.--With the 20 million dollar loan in 1972, China became the first communist country to offer economic aid to Burundi.

Cameroon.--Cameroon received economic assistance (71 million dollars) from the PRC for the first time in 1973.

Central African Republic.--China extended a four million dollar loan to the Central African Republic in 1964. It has probably never been used because the Central African Republic severed diplomatic relations with the PRC in January, 1966.

Chad.--Chad received 50 million dollars of Chinese aid in 1973 for rice cultivation, urban electrification, and a hydroelectric agricultural complex.

Congo (Brazzaville).--China committed 25 million dollars of economic aid to Congo (Brazzaville) in 1964. Chinese aid has been used for a textile mill, a dockyard, a state farm, a broadcasting transmitter station, radio transmission, and medical assistance.

Dahomey.--Diplomatic relations between Dahomey and China were broken off in 1966 and were not resumed until 1972. At the same time, they signed an agreement on Chinese economic aid under which China extended a loan of 44 million dollars.

Equatorial Guinea.--After the establishment of diplomatic relations in October, 1970, China and Equatorial Guinea entered into an agreement on economic and technical co-operation in January, 1971 under which China extended a loan of 10 million dollars. The aid is to be used for medical assistance, a cotton experimental farm, and a road.

Ethiopia.--Shortly after establishing diplomatic relations with the PRC, Ethiopia received Chinese aid worth 84 million dollars, to be used for the extension of the civil air system, road building, urban electrification, and hydro-geological and technical investigations.

Ghana.--Chinese aid to Ghana consisted of 42 million dollars in the early 1960s for grass-plaiting enterprises, a pencil factory, pisciculture centres, a cotton spinning and knitting mill, and a state farm. Diplomatic relations between Ghana and China were severed in 1966 and Chinese aid was discontinued.

Guinea.--Guinea and China have signed six aid agreements under which the PRC has extended economic aid totalling 78 million dollars from 1959 to 1974. The aid projects have included hydroelectric power stations, high-voltage lines and a transmission station, small steelworks, oil-pressing works, a bamboo processing centre, cinema and conference buildings, a tea plantation and factory, a cigarette and match factory, railway lines, agricultural development, medical assistance, and budgetary support.

Kenya.--The establishment of diplomatic relations between Kenya and China in 1964 was followed by two Chinese loans totalling 18 million dollars. However, China's aid programme in Kenya was interrupted when Chinese diplomats and journalists were expelled from the country in 1965. The only aid project to be completed concerned bamboo processing.

Malagasy Republic.--The Malagasy Republic received an 11 million dollar loan from China in 1972 for a tourist complex (a hotel project started by the Republic of South Africa and which China promised to complete) and rice supplies.

Mali.--China extended 35 million dollars of aid to Mali between 1961 and 1973. The aid projects have included a railway line, a textile mill, cigarette and match factories, a tea plantation and processing factory, a sugar plantation and refinery, radio transmission, an exhibition pavilion and a cinema building, a motel, a tannery, jeeps, and agricultural and medical assistance.

Mauritania.--Mauritania received 25 million dollars of Chinese aid between 1967 and 1971 for water supply and irrigation projects, a hospital, and educational and medical assistance. In 1973-1974 Mauritania received another 39 million dollars for a deep-water port at Nouakchott and highway construction.

Mauritius.--The PRC extended a 35 million dollar loan to Mauritius in 1972.

Niger.--China's 51 million dollars of economic assistance to Niger in 1973-1974 is devoted largely to agricultural development projects.

Rwanda.--The Chinese loan of 22 million dollars in 1972 was the first loan offered to Rwanda by a communist country. The economic assistance is for road improvement and a cement plant.

Senegal.--Senegal received a Chinese loan worth 49 million dollars in 1973 to be used, in part, for agricultural projects and well-digging.

Sierra Leone.--Sierra Leone received a 30 million dollar loan from China in 1971 for, among other things, a national stadium and medical assistance.

Somalia.--Since 1973, the PRC has extended 135 million dollars of aid to Somalia for road and agricultural projects, water supply projects in several towns, construction of a cigarette and match factory, and medical assistance.

Sudan.--The 82 million dollars of Chinese loans to Sudan in 1970-1971 were allocated for industrial use, road building, resource development, and medical assistance.

Tanzania.--Next to Pakistan, Tanzania is the largest LDC recipient of Chinese aid, having received 331 million dollars from the PRC. In the mid-1960's, China extended over 50 million dollars of aid to Tanzania for various projects, including the "Friendship" textile mill--one of the largest industrial undertakings in the country--a leather and shoe factory, a wood furniture factory, agricultural tool factories, irrigation projects, a hospital, a vaccine factory, equipment for a pharmaceutical laboratory, and medical assistance. In 1970, Tanzania and Zambia jointly received a 402 million dollar loan for the construction of the Tan-Zam Railroad⁵-- at the time the largest credit ever extended by a communist country to a single development project in the LDCs.⁶ About one-half of the loan was to be used to import Chinese goods which would be sold on the domestic market to generate funds

⁵The actual aid agreement was signed almost three years earlier.

⁶It even exceeded the amount of Soviet aid (about 325 million dollars) for the construction of the Aswan Dam. However, in 1973 the USSR pledged new credits of 188 million dollars to Iran for expansion of the Soviet-built steel mill at Isfahan. This brought the USSR's total allocation for the facility to more than 500 million dollars, surpassing the amount of Chinese assistance for the construction of the Tan-Zam Railroad.

for the local costs of the project. In 1974, Tanzania received a 75 million dollar loan to exploit iron ore and coal deposits and to build a rail line to the Tan-Zam Railroad.⁷

Togo.--When diplomatic relations were established in September, 1972, China granted economic assistance of 45 million dollars to Togo. This was the first time that Togo accepted a loan from a communist country.

Tunisia.--Tunisia accepted its first economic assistance from China (a 40 million dollar loan) in 1972.

Uganda.--China's only aid to Uganda consists of 15 million dollars in 1965 (12 million dollars in loans and three million dollars in grants) for a dam, a brick factory, a spillway, and a rice scheme. The aid did not begin to be utilized until 1971.

Upper Volta.--Upper Volta received a 50 million dollar loan from the PRC in 1973, and a grant in 1974 in the form of two million dollars worth of grain.

Zaire.--Zaire received its first aid from a communist country when it accepted a 100 million dollar loan from China in 1973. The loan is to be used for light industry and agricultural equipment.

Zambia.--Zambia is the third largest of China's LDC aid recipients, behind Pakistan and Tanzania. The PRC

⁷For the actual text of the 1974 Sino-Tanzanian Agreement of Economic and Technical Co-operation, see Appendix E of this thesis.

committed 218 million dollars of economic assistance to Zambia between 1967 and 1970, most of it for Zambia's share of the Tan-Zam Railroad. Chinese aid was also used to set up two radio stations and a textile mill. In 1973, China provided a 10 million dollar grant to Zambia for improvement of road transportation; and in 1974, Zambia received Chinese loans worth 51 million dollars for road construction, and technical and agricultural projects.

(2) Asia and the Middle East

About two-fifths of China's economic assistance to the LDCs, or 1.4 billion dollars, has gone to 14 countries in Asia and the Middle East. Until the end of 1969, these countries accounted for more than two-thirds of Chinese aid to the LDCs. The ratio dropped to less than one-third in the 1970s, however, as the geographic concentration of Chinese aid shifted toward African nations.

Afghanistan.--China has extended a total of 73 million dollars of economic assistance to Afghanistan. The aid has been used for the Bagrami textile mill, an experimental fish-breeding centre, an experimental tea plantation, a poultry farm, a station for the cultivation of silkworms, irrigation projects, lapis lazuli grinding works, and a hospital.

Bangladesh.--The area which is now called Bangladesh has received 11 million dollars worth of economic assistance from the PRC. This consists of credits originally extended to

the Government of Pakistan in 1964 and 1968 which were used in the East Wing of the country (now Bangladesh).

Burma.--China originally pledged 84 million dollars of economic aid to Burma in 1961, but only about one-third had been used by 1967, when anti-Chinese rioting spread throughout Rangoon and Peking discontinued its aid programme in that country shortly thereafter. In 1971, the PRC revived the unused portion (57 million dollars) of the 1961 credit in an effort to repair political relations with Burma. The aid projects have included bridges, cotton-spinning mills, sugar mills, a needle-knitting mill, a paper mill, and a power station.

Cambodia.--China extended over 90 million dollars of economic aid to Cambodia between 1956 and 1966. The aid was used to build textile, paper, and sugar mills; cement, glass, tire, and plywood factories; hospitals, schools, laboratories, and other buildings; an airport; a broadcasting station; and a fertilizer plant. A new aid agreement was signed between the two countries in August, 1975.

Egypt.--Since 1956, Egypt has received Chinese aid commitments worth over 130 million dollars, consisting of grants for wheat shipments and loans for the construction of 15 factories. Most of this aid has not been utilized.

Indonesia.--The PRC offered Indonesia 125 million dollars of economic assistance between 1956 and 1965, to be

used for textile and paper mills and a conference building. Only about one-fifth of the aid had actually been used when diplomatic relations were severed and the aid programme was suspended in 1965.

Iraq.--Iraq received a 45 million dollar loan from China in 1971 for the construction of a textile mill and other projects.

Laos.--China's economic assistance to Laos has consisted of a four million dollar grant in 1962 and a 25 million dollar loan in 1974 for commodity procurement and road construction. In 1975, more economic aid was extended for rice, oil, agricultural machinery, general goods, and capital projects.

Nepal.--In Nepal, which is said to receive about one-fifth of its foreign aid from the PRC⁸ and which has accepted over 100 million dollars of Chinese commitments since 1956 (about one-half in the form of grants), the following Chinese aid projects have been carried out: bridges and roads, a hydroelectric power station and transmission lines, a cotton textile mill, a paper mill, a leather and shoe factory, a brick and tile factory, and a trolley bus system. In addition, the Chinese aid has included large quantities of consumer goods, which are sold by governmental trading agencies in Nepal. The

⁸OECD, Flow of Resources, p. 405.

proceeds are used to finance the local cost of Chinese aid projects.

Pakistan.--Having received economic assistance amounting to 391 million dollars (over 400 million dollars if aid earmarked for the former East Wing is included), Pakistan occupies first place on the list of LDC recipients of Chinese aid. The aid has been used to finance a heavy machinery complex at Taxila (which started trial production in 1970 and was expected to go into full production in 1975), road construction projects, a textile mill, a paper mill, a steel mill, a fertilizer plant, a power station, and a transmission line; to import capital equipment and commodities such as coal, cement, and foodstuffs; and to support Pakistan's Fourth Five-Year Plan. In 1972, China converted 110 million dollars of loans previously extended to Pakistan into grants.

Sri Lanka.--Chinese aid to Sri Lanka has totalled over 150 million dollars. The main project is the Bandaranaike Memorial Hall; but loans and grants have also been made for the construction of textile mills; for the purchase of rice, tractors, rolling stock, and a cargo ship; and for relief of the critical foreign exchange situation. The 1971 credit to Sri Lanka was unusual because 25 million dollars of it was in scarce hard currency--the largest single commitment of foreign exchange aid ever extended by a communist country to an LDC. Sri Lanka also receives preferential treatment from China

through the annual rubber-rice barter arrangement. Under this agreement, Sri Lanka exchanges its rubber at favourable rates for rice which is provided by China at below world market prices.

Syria.--China has extended 61 million dollars of economic aid to Syria for yarn factories, textile mills, and an indoor stadium at Damascus.

North Yemen.--Chinese aid to North Yemen (80 million dollars) has been used for a textile mill, road construction, wells, a technical school, and educational and medical assistance.

South Yemen.--South Yemen has obtained economic assistance from China (55 million dollars) for a textile mill, road construction, wells, salt production, agricultural and hospital machinery and equipment, technical support for its fishing industry, and medical assistance.

(3) Latin America

The PRC extended 133 million dollars of economic assistance in 1971-1972 to three Latin American countries--Chile, Guyana, and Peru. The assistance has consisted of a hard currency grant (two million dollars) to Chile in connection with an earthquake disaster and a subsequent 63 million dollar loan, partially for food imports; a 26 million dollar loan to Guyana (its first aid from a communist country) for a textile

mill, a highway, a glass factory, and a brick and tile plant; and a 42 million dollar loan to Peru for petroleum and mining development. Most of this aid has not been utilized.

(4) Europe

Malta is the only LDC in Europe to have accepted economic assistance from the PRC. Malta received its first aid commitment from a communist country when China extended a 45 million dollar loan in 1972 for the construction of a dry-dock and for chocolate and glass factories.

2. Economic Assistance to Other CPCs

The PRC's aid programme in other CPCs dates back to 1953, when China decided to support the reconstruction effort of North Korea. Since that time, China has committed at least 2.7 billion dollars⁹ of economic assistance to seven CPCs (see Table 14), of which slightly over one-half has been provided since 1966. Practically all committed funds have been disbursed.¹⁰

Although fluctuations in the annual level of new commitments have certainly occurred, they have not been nearly

⁹Excludes large credits of unknown magnitude to North Korea in 1970 and to Romania in 1971.

¹⁰Chapter V, pp. 264-272 of this thesis discuss actual disbursements of Chinese aid.

TABLE 14
 VOLUME OF CHINA'S ECONOMIC AID COMMITMENTS
 TO OTHER CPCs, 1953-1974
 (Millions of US Dollars)

Year	Volume
1953	200
1954	--
1955	204
1956	50
1957	54
1958	55
1959	119
1960	220
1961	282
1962	--
1963	40
1964	neg.
1965	50
1966	75
1967	80
1968	295
1969	90
1970	365
1971	100
1972	125
1973	125
1974	125
Total	2,654

Source: Table 15, p. 163, of this thesis.

neg. means "negligible".

as severe as in the case of China's aid programme in the LDCs. Aid commitments to the CPCs averaged less than 100 million dollars annually in the 1950s, but increased to almost 115 million dollars per year during the next decade. In 1970, the PRC extended a record 365 million dollars,¹¹ exceeding by more than 20 per cent the previous peak years of 1961 and 1968. From 1971 to 1974, Chinese aid to other CPCs consisted of annual contributions of 100-125 million dollars for North Vietnam.

The geographic distribution of China's economic assistance programme in the CPCs (see Table 15) has been much more concentrated than its parallel programme in the LDCs. For example, China has extended 2.7 billion dollars of aid to only seven CPCs (i.e. an average of 379 million dollars per country), compared to 3.5 billion dollars to 47 LDCs (i.e. only 75 million dollars per country). Furthermore, one country along--North Vietnam--accounts for more than one-half of total commitments to the CPCs, and over one-fifth of total aid commitments. The following is a brief description of China's aid programme in each country.

¹¹Therefore, China extended over one billion dollars of economic aid in 1970--709 million dollars to the LDCs and 365 million dollars to the CPCs.

TABLE 15

GEOGRAPHIC DISTRIBUTION OF CHINA'S ECONOMIC AID
 COMMITMENTS TO OTHER CPCs, 1953-1974
 (Millions of US Dollars)

Year	Total	Albania	Cuba	Hungary	North Korea	Mongolia	Romania	North Vietnam
Total	2654	399	100	58	330	115	265	1387
Per Cent of Total	100.0	15.0	3.8	2.2	12.4	4.3	10.0	52.3
1953	200	--	--	--	200	--	--	--
1954	--	--	--	--	--	--	--	--
1955	204	4	--	--	--	--	--	200
1956	50	2	--	8	--	40	--	--
1957	54	4	--	50	--	--	--	--
1958	55	5	--	--	25	25	--	--
1959	119	19	--	--	--	--	--	100
1960	220	5	60	--	105	50	--	--
1961	282	125	--	--	--	--	--	157
1962	--	unk.	--	--	--	--	--	--
1963	40	--	40	--	--	--	--	--
1964	neg.	--	--	--	--	neg.	--	--
1965	50	unk.	--	--	--	--	--	50
1966	75	--	--	--	--	--	--	75
1967	80	--	--	--	--	--	--	80
1968	295	195	--	--	--	--	--	100
1969	90	--	--	--	--	--	--	90
1970	365	40	--	--	unk.	--	265	60
1971	100	--	--	--	--	--	unk.	100
1972	125	--	--	--	--	--	--	125
1973	125	--	--	--	--	--	--	125
1974	125	--	--	--	--	--	--	125

TABLE 15--CONTINUED

Sources: Wolfgang Bartke, China's Economic Aid, trans. by Waldtraut Jarke (London: C. Hurst and Company, 1975), pp. 59, 79, and 159; King C. Chen, "Hanoi vs. Peking: Policies and Relations--A Survey", Asian Survey, Vol. XII, No. 9, September, 1972, p. 815; Alexander Eckstein, Communist China's Economic Growth and Foreign Trade (New York: McGraw-Hill, 1966), Table E-1, p. 306; Japan External Trade Organization, How to Approach the China Market, trans. by Press International (New York: John Wiley and Sons, 1972), Table III-7, p. 52; OECD, Flow of Resources to Developing Countries (Paris: OECD, 1973), Tables 1 and 5, pp. 398 and 404; Robert L. Price, "International Trade of Communist China, 1950-1965", in An Economic Profile of Mainland China, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1967), Table 4, p. 589; Leo Tansky, "Chinese Foreign Aid", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Table 4, p. 378; Leo Tansky, "China's Foreign Aid: The Record", Current Scene, Vol. X, No. 9, September, 1972, Table III, p. 8. The data in the preceding sources were updated on the basis of information from the OECD and the USDS; for example: DAC, 1975 Review, pp. 176-177; DAC, 1974 Review, pp. 135-136; DAC, 1973 Review, pp. 152-153; and USDS, Bureau of Public Affairs, Background Notes on the Countries of the World: People's Republic of China, Pubn. 7751, Rev. Oct. 1974 (Washington, D.C.: US Government Printing Office, 1974), p. 8.

neg. means "negligible".

unk. means "amount of loan or grant is unknown".

Albania.--Albania, because of its antipathy to the USSR, is the only CPC other than North Vietnam to have continued to receive annual inputs of Chinese economic aid. Since 1955, it has received aid commitments totalling almost 400 million dollars from the PRC, almost all of which has actually been delivered. Albania was also one of the earliest recipients of Chinese aid, having received 39 million dollars of loans during 1955-1960. In the 1960s, after the rift between Moscow and Tirana, China stepped up its economic assistance to Albania, with extensions of 125 million dollars in 1961 and 195 million dollars in 1968. Most of the aid has been used to cover Albania's trade deficit with China and with the DMCs. The deficits with the PRC have represented primarily imports of machinery and equipment with which the Chinese have built various light and heavy industrial projects in Albania, e.g. a dam, power stations, an oil refinery, textile and paper mills, and fertilizer and cement plants. Under a 40 million dollar credit extended in 1970, the PRC agreed to construct about 30 additional industrial installations, largely for exploiting Albania's mineral and petroleum resources.

Cuba.--Cuba has received 100 million dollars of aid from the PRC, an interest-free loan of 60 million dollars in 1960 and another 40 million dollars in 1963. The purpose of the loans was to finance exports of complete plants and to provide technical assistance for the development of the Cuban

economy. Sino-Cuban political relations deteriorated rapidly in the mid-1960s and Cuba has received no new aid extensions from China since that time. Only one Chinese aid project is known to have been completed in Cuba--a factory producing machine parts for various machines used in the sugar industry and in agricultural production.

Hungary.--China extended 58 million dollars of economic assistance to Hungary in 1956-1957. However, it is unlikely that much of this aid was drawn down since Hungary was a strong supporter of the Soviet position in the Sino-Soviet political dispute.

North Korea.--China made available to North Korea a total of 330 million dollars of economic aid during 1953-1960, including a loan of 200 million dollars as early as 1953 for post-war reconstruction, a second loan of 25 million dollars in 1958, and a third one for 105 million dollars in 1960. The loans were used to finance equipment and technical assistance from China for light industrial projects and power plants. In addition, China and North Korea co-operated in the building of a large hydroelectric power station on the Yalu River. During the Cultural Revolution, political relations between the PRC and North Korea were strained and Chinese aid was discontinued. China did not provide additional assistance until 1970, when the Chinese agreed to provide an unknown quantity of aid for North Korea's Six-Year Plan (1971-1976). The aid was allocated largely for the construction of trans-

portation and fuel storage facilities and light industrial installations.

Mongolia.--Mongolia benefited from Chinese economic and technical assistance in the 1950s, receiving 115 million dollars of aid during 1956-1960. However, after 1960, as Mongolia sided with the USSR in the Sino-Soviet dispute, Chinese aid dwindled and came to a complete halt in 1964. China's aid projects in Mongolia have included the development of light industry, such as textile mills and brick and glass factories; roads and bridges; power stations; housing; and agricultural projects. In addition, between 1956 and 1964 large numbers of Chinese labourers and technicians (from 6,000 to 12,000) were sent to work on these projects. The last group of Chinese workers left Mongolia in July, 1964.

Romania.--As part of its effort to develop closer relations with the more independent Eastern European countries, China extended about 265 million dollars of aid to Romania in 1970, making it the most recent country to be added to the list of China's CPC aid recipients. The PRC's first aid to that country was a grant in June, 1970 of 21 million dollars worth of goods for flood relief. In November, the Chinese extended a long-term interest-free loan of 244 million dollars to Romania--the highest commitment ever extended by China to a single country in the same year. Under the loan, the Chinese were to construct ceramics, glass, food processing, and other light industrial projects. In addition, Romania

obtained a new Chinese credit of unknown magnitude in October, 1971.

North Vietnam.--North Vietnam is by far the largest recipient of Chinese aid. China has committed almost 1.4 billion dollars of economic assistance to North Vietnam, most of which has actually been delivered. The aid extended during 1955-1965 was primarily for modernizing North Vietnam's transportation and communication networks, for expanding its irrigation facilities, and for constructing industrial installations, e.g. the Thai Nguyen iron and steel plant. The country's requirements were altered sharply by the Vietnam War, particularly since the intensification of the war in 1965. Chinese aid during 1966-1969 consisted largely of unrequited exports to meet shortfalls of foodstuffs and other goods and to repair bomb damage. The actual aid inflow during this period averaged about 85 million dollars annually.¹² North Vietnam has continued to receive substantial commitments of development assistance from China in the 1970s. Chinese

¹²In comparison, Soviet economic aid to North Vietnam during this period averaged about 210 million dollars annually, and US economic aid to South Vietnam averaged almost 450 million dollars annually. For details, see Leo Tansky, "Chinese Foreign Aid", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), p. 378; and US Department of Commerce, Bureau of the Census, Statistical Abstract of the United States (95th ed.; Washington, D.C.: US Government Printing Office, 1974), Table 1317, pp. 784-786.

aid extended to North Vietnam in recent years has amounted to about 125 million dollars annually and has consisted exclusively of grants. In September, 1975 China and North Vietnam negotiated a new economic aid agreement.

3. Trade with Developing Countries

China's economic assistance programmes have provided developing countries with some of the critical resources required in the course of their economic development. However, it is generally recognized that a high level of self-sustaining growth in the developing countries cannot be achieved simply by foreign aid.¹³ In the long run, only the evolution of trade with the developed countries, together with a growing capacity to substitute domestic production for imports, will enable them to grow without the help of concessional finance. Consequently, China's trade with the developing countries calls for appraisal on its own merits.

China's trade with the LDCs reached a peak of 1,300 million dollars in 1966 (see Table 16). The volume of this trade subsequently declined over the next few years as the

¹³For example, see Harry G. Johnson, "Trade Preference and Developing Countries", Chapter 12 of Chicago Essays in Economic Development, ed. by David Wall (Chicago: The University of Chicago Press, 1972), p. 305; Pearson, Partners in Development, pp. 45 and 80; and V.E. Santapillai, "Assistance for Export Promotion", Journal of World Trade Law, Vol. 4, No. 2, March : April, 1970, p. 240.

TABLE 16

VOLUME OF CHINA'S TRADE WITH THE LDCs,^a 1960-1974

Year	Total		Chinese Exports		Chinese Imports	
	Millions of US Dollars	Per Cent of Total Trade	Millions of US Dollars	Per Cent of Total Exports	Millions of US Dollars	Per Cent of Total Imports
1960	620	15.5	385	19.6	235	11.6
1961	515	17.1	340	22.3	175	11.7
1962	585	21.9	400	26.2	185	16.1
1963	680	24.5	490	31.2	190	15.8
1964	1,015	31.5	620	35.4	395	26.9
1965	1,220	31.4	810	39.8	410	22.2
1966	1,300	30.6	910	41.2	390	19.2
1967	1,085	27.9	825	42.4	260	13.3
1968	1,055	28.0	825	42.4	230	12.6
1969	1,145	29.7	855	42.1	290	15.8
1970	1,165	27.6	895	43.8	270	12.4
1971	1,405	30.2	1,015	42.2	390	17.3
1972	1,905	32.2	1,275	41.3	630	22.2
1973	2,910	29.5	2,095	42.8	815	16.4
1974	3,740	27.3	2,560	40.6	1,180	15.9

Sources: Tables 8-9, pp. 84 and 86, of this thesis.

^aExports are valued on an f.o.b. basis and imports on a c.i.f. basis. Data are rounded to the nearest five million dollars.

economic effects of the Cultural Revolution forced a retrenchment in foreign trade in general. However, an aggressive trade promotion programme initiated by the PRC in 1970 broke the pattern of stagnation in China-LDC trade. By 1974, trade with the LDCs was more than triple the 1970 level, with Chinese exports of 2,560 million dollars and imports of 1,180 million dollars. Between 1960 and 1974, Chinese trade with the LDCs advanced at an average annual rate of 14 per cent, compared to only nine per cent for total trade, resulting in an increase in the LDCs' share of China's total trade to 27 per cent in 1974.

China's imports from the LDCs increased annually at an average rate of 12 per cent during 1960-1974, compared to 10 per cent for total imports, producing a boost in the LDCs' share of total Chinese imports from 12 per cent in 1960 to 16 per cent in 1974. However, exports to the LDCs grew even faster (at a rate of 14 per cent), and accounted for 41 per cent of total Chinese exports in 1974. Thus, China's trade surplus with the LDCs increased from only 150 million dollars in 1960 to 1,380 million dollars in 1974. Since 1970, the value of the trade surpluses with the LDCs has averaged over 900 million dollars annually. A large share of these surpluses (mainly with Hong Kong, Macao, Malaysia, and Singapore) is settled in hard currency and goes to offset China's trade deficits with the DMCs.

The large increases in the value of China-LDC trade in recent years reflect not only greater physical volume, but also international inflation and the revaluation of currencies. For example, average prices in 1973 increased 25 per cent for copper and 35 per cent for cotton, and almost doubled for rubber compared to 1970.¹⁴ These three commodities made up almost two-thirds of Chinese imports from the LDCs in 1973. Moreover, these increases have been accompanied by rising prices for rice and (to a lesser extent) textiles--major Chinese exports to the LDCs.

The geographic distribution of China's trade with the LDCs has been overwhelmingly in favour of Asia and the Middle East (see Table 17). After increasing to a high of 1,045 million dollars in 1966, trade with the region fell to an average of about 935 million dollars during 1967-1970. By 1974, it had recovered to 2,545 million dollars, constituting over two-thirds of total trade with the LDCs.

Hong Kong, Macao, Malaysia, and Singapore together accounted for 45 per cent of China's LDC trade in 1973 and 40 per cent in 1974. Hong Kong is the PRC's largest LDC trading partner and its third largest overall trading partner (next to Japan and the United States). Furthermore, Hong Kong is the second biggest market for Chinese exports (next to

¹⁴Fogarty, "China's Economic Relations", p. 736.

TABLE 17
GEOGRAPHIC DISTRIBUTION OF CHINA'S TRADE
WITH THE LDCs,^a 1961-1974
(Millions of US Dollars)

Year	Total Trade	Africa	Asia and Middle East			Latin America	Europe
			Total	Hong Kong & Macao ^b	Malaysia & Singapore ^c		
1961--Total	515	55	445	115	65	10	--
Exports	340	30	305	115	55	neg.	--
Imports	175	30	135	neg.	10	10	--
1962--Total	585	55	495	140	65	35	--
Exports	400	30	365	140	65	neg.	--
Imports	185	20	130	neg.	neg.	35	--
1963--Total	680	90	580	185	95	10	--
Exports	490	35	455	185	90	neg.	--
Imports	190	55	130	neg.	5	5	--
1964--Total	1,015	110	745	270	95	155	--
Exports	620	55	560	270	95	neg.	--
Imports	395	55	185	neg.	neg.	155	--
1965--Total	1,220	160	950	360	125	110	--
Exports	810	85	720	355	115	5	--
Imports	410	75	230	5	10	105	--
1966--Total	1,300	145	1,045	405	145	110	--
Exports	910	95	810	400	100	5	--
Imports	390	50	235	5	45	105	--
1967--Total	1,085	160	910	310	185	15	--
Exports	825	105	715	310	135	5	--
Imports	260	55	195	neg.	50	10	--
1968--Total	1,055	150	895	325	220	10	--
Exports	825	90	725	325	165	10	--
Imports	230	60	170	neg.	55	neg.	--
1969--Total	1,145	165	970	340	260	10	--
Exports	855	95	750	340	155	10	--
Imports	290	70	220	neg.	105	neg.	--
1970--Total	1,165	195	955	375	190	15	neg.
Exports	895	125	760	370	140	10	neg.
Imports	270	70	195	5	50	5	neg.
1971--Total	1,405	315	1,025	450	185	65	neg.
Exports	1,015	175	830	445	150	10	neg.
Imports	390	140	195	5	35	55	neg.
1972--Total	1,905	350	1,310	540	235	230	15
Exports	1,275	195	1,045	535	190	20	15
Imports	630	155	265	5	45	210	neg.
1973--Total	2,910	470	2,110	835	460	300	30
Exports	2,095	285	1,745	825	325	45	20
Imports	815	185	365	10	135	255	10
1974--Total	3,740	610	2,545	930	550	530	55
Exports	2,560	420	2,010	910	n.a.	90	40
Imports	1,180	190	535	20	n.a.	440	15

TABLE 17--CONTINUED

Sources: Nai-Ruenn Chen, "China's Foreign Trade, 1950-1974", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), Table A.6, pp. 649-650; The Editor, "China's Foreign Trade in 1974", Current Scene, Vol. XIII, No. 9, September, 1975, Tables II and III, pp. 4 and 6; The Editor, "China's Foreign Trade, 1973-1974", Current Scene, Vol. XII, No. 12, December, 1974, Table 3, p. 8; Milton Kovner, "Communist China's Foreign Aid to Less-Developed Countries", Table 3, p. 616, and Robert L. Price, "International Trade of Communist China, 1950-1965", Table 14, p. 600, both in An Economic Profile of Mainland China, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1967); A. H. Usack and R. E. Batsavage, "The International Trade of the People's Republic of China", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Tables 7, 10, and 17, pp. 347, 350-351, and 362; US Central Intelligence Agency, Office of Economic Research, People's Republic of China: International Trade Handbook, Research Aid, December, 1972, Table 3, pp. 10-11; US Department of Commerce, Domestic and International Business Administration, Overseas Business Reports: Basic Data on the Economy of the People's Republic of China, OBR 74-21 (Washington, D.C.: US Government Printing Office, 1974), Table 13, p. 31.

^aExports are valued on an f.o.b. basis and imports on a c.i.f. basis. Data are rounded to the nearest five million dollars. Due to rounding, components may not add to the totals shown.

^bExcludes re-exports of China-origin goods to third countries.

^cAlmost all of China's exports to Malaysia probably are re-exported through Singapore and thus are double counted in the official statistics. To eliminate this double counting, estimates of China's exports to Malaysia and Singapore include only those imports reported by Singapore. The few exports that go directly to Malaysia are probably roughly compensated for in total trade to the area by re-exports through Singapore to Indonesia which have been reported as imports from China by both countries.

neg. means "negligible".

n.a. means "not available".

Japan) and the most important source of China's hard currency earnings--1.6 billion dollars net in 1974.¹⁵ In addition to the direct sale of Chinese merchandise (875 million dollars in 1974), the sources of Chinese foreign exchange earnings from Hong Kong include Hong Kong re-exports of China-origin goods to third countries, remittances from overseas Chinese, and earnings from PRC-owned businesses and investments in Hong Kong. China's trade surplus with Hong Kong and Macao increased to record levels in 1973-1974--815 million dollars in 1973 and 890 million dollars in 1974.

Malaysia and Singapore represent the PRC's second largest LDC trading partner and its third largest export market. Chinese trade with these two countries increased from a low of 185 million dollars in 1971 to a record 550 million dollars in 1974. China also earns substantial amounts of foreign exchange from this trade: China's trade surplus with Malaysia and Singapore reached a high of 190 million dollars in 1973.

The diverse movements in China's trade with other countries in Asia and the Middle East can be traced mainly to changes in political relations between China and the particular country. Thus, trade diminished with Burma (until 1971), Cambodia, Egypt, and Indonesia (until 1972), while expanding

¹⁵Ashbrook, "China: Economic Overview, 1975", p. 33.

with Kuwait, Iraq, Pakistan, Sri Lanka, and Syria. In addition, Chinese exports to the region have been stimulated by recent agreements with a number of Asian countries: after a hiatus of three years, Burma is again importing Chinese commodities under credit following the resumption of political relations in 1971; in 1973, Malaysia signed its first direct agreement with China to receive rice for rubber; in 1972, Indonesia signed its first trade contract with China since their political relations were severed in 1967; and Thailand (1973) and the Philippines (1974) have agreed to buy petroleum from China.

Chinese trade with African countries almost doubled in absolute terms from 315 million dollars in 1971 to 610 million dollars in 1974. In percentage terms, however, it dropped from 22 per cent of total trade with the LDCs in 1971 to 16 per cent in 1974. The rapid growth in this trade has been closely related to the PRC's expanded aid programme in African countries such as Ethiopia, Somalia, Sudan, Tanzania, and Zambia. China's trade surplus with Africa amounted to 230 million dollars in 1974.

The PRC's trade with Latin America has fluctuated greatly--increasing to 155 million dollars in 1964, falling to 10 million dollars in 1969, and recovering to 530 million dollars (14 per cent of China's LDC trade) in 1974. The rapid decline in the mid-1960s was largely due to the cessation of corn imports from Argentina, while the sharp increase

in the 1970s was based on new trade agreements with Latin American countries such as Chile, Guyana, and Peru. In particular, the increase in China's imports of nonferrous metals from Latin America was largely a result of the changeover from importing through the London Metals Exchange to direct imports from producing countries; and China has purchased large quantities of agricultural goods from Brazil. In contrast to trade with Africa, Asia, and the Middle East, China has incurred large deficits (350 million dollars in 1974) on its trade with Latin America.

Four countries in Europe--Greece, Malta, Portugal, and Spain--make up the remainder of China's trade with the LDCs. Trade with these countries increased from a negligible amount in 1971 to 55 million dollars, or less than two per cent of China's LDC trade, in 1974. The balance of trade has continually been in China's favour.

The commodity composition of Chinese trade with the LDCs did not change radically over time (see Tables 18-19). The LDCs represent large markets for Chinese products and are also important suppliers of key raw materials for Chinese industry. China's exports to the LDCs consist largely of foodstuffs (almost one-half shipped to Hong Kong and Macao) and manufactured goods; imports are predominantly crude materials (mostly rubber and textile fibres) and nonferrous metals (since 1971). Of China's total exports in 1973, exports

TABLE 18
 COMMODITY COMPOSITION
 OF CHINA'S EXPORTS TO THE LDCs,^a
 1970-1973
 (Millions of US Dollars)

Commodity Category	1970	1971	1972	1973
Total	895	1,015	1,275	2,095
Foodstuffs, of which:	415	455	505	940
Animals, meat, and fish	140	170	205	285
Grain	75	80	65	400
Fruits and vegetables	95	85	70	90
Crude materials, fuels, and edible oils, of which:	85	75	90	115
Oilseeds	15	10	10	15
Textile fibres	neg.	neg.	5	5
Crude animal materials	20	20	45	25
Chemicals	25	40	50	100
Manufactured goods, of which:	360	420	625	940
Textile yarn and fabric	180	160	195	300
Clothing	40	25	35	110
Iron and steel	15	30	40	75
Nonferrous metals	neg.	20	neg.	5
Other	10	25	neg.	5

Sources: The Editor, "China's Foreign Trade, 1973-1974", Current Scene, Vol. XII, No. 12, December, 1974, Tables 9-10, pp. 12-13; A.H. Usack and R.E. Batsavage, "The International Trade of the People's Republic of China", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Table 16, pp. 357-358; US Central Intelligence Agency, Office of Economic Research, People's Republic of China: International Trade Handbook, Research Aid, December, 1972, Tables 9-10, pp. 21-24.

^aExports are valued on an f.o.b. basis and imports on a c.i.f. basis. Data are rounded to the nearest five million dollars. Due to rounding, components may not add to the totals shown.

neg. means "negligible".

TABLE 19

COMMODITY COMPOSITION OF CHINA'S IMPORTS FROM THE LDCS,^a
1970-1973
(Millions of US Dollars)

Commodity Category	1970	1971	1972	1973
Total	270	390	630	815
Foodstuffs, of which:	5	25	85	100
Grain	neg.	10	10	20
Crude materials, fuels, and edible oils, of which:	230	205	350	485
Rubber	80	70	60	160
Textile fibres	90	80	155	190
Chemicals, of which:	5	10	20	30
Fertilizer	neg.	10	20	25
Manufactured goods, of which:	30	135	175	195
Textile yarn and fabric	5	--	neg.	neg.
Iron and steel	neg.	--	10	5
Nonferrous metals	10	85	150	165
Machinery and equipment	neg.	--	10	5
Other	--	15	neg.	5

Sources: The Editor, "China's Foreign Trade, 1973-1974", Current Scene, Vol. XII, No. 12, December, 1974, Tables 9-10, pp. 12-13; A.H. Usack and R.E. Batsavage, "The International Trade of the People's Republic of China", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Table 16, pp. 357-358; US Central Intelligence Agency, Office of Economic Research, People's Republic of China: International Trade Handbook, Research Aid, December, 1972, Tables 9-10, pp. 21-24.

^aExports are valued on an f.o.b. basis and imports on a c.i.f. basis. Data are rounded to the nearest five million dollars.

neg. means "negligible".

to the LDCs comprised a significant share of iron and steel (almost 100 per cent); grain (96 per cent); animals, meat, and fish (67 per cent); textiles and clothing (48 per cent); chemicals (48 per cent); and fruits and vegetables (43 per cent). Imports of crude materials, fuels, and edible oils, which comprised over one-half of China's imports from the LDCs in 1973, were 55 per cent of China's total imports of such commodities. Almost all of China's imports of rubber, nearly one-half of the imports of textile fibres, and more than two-fifths of nonferrous metals originated in the LDCs.

In addition to the LDCs, China conducts a considerable amount of trade with the developing centrally planned economies in Asia, Latin America, and Europe, most of it based on the PRC's economic assistance programmes in these countries. After dropping from a peak of 545 million dollars in 1965 to 460 million dollars in 1970, Chinese trade with the developing CPCs rebounded to a record 1,360 million dollars in 1974 (see Table 20). Trade with these countries accounted for 10 per cent of China's total trade in 1974--14 per cent of Chinese exports and six per cent of Chinese imports. Thus, China's trade with all developing countries (i.e. including both the LDCs and the developing CPCs) comprised 37 per cent of total Chinese trade, 55 per cent of its exports, and 22 per cent of its imports in 1974. The developing CPCs have consistently incurred sizable deficits on their PRC trade (410 million

TABLE 20

VOLUME OF CHINA'S TRADE WITH THE DEVELOPING CPCs,^a 1950-1974

Year	Total		Chinese Exports		Chinese Imports	
	Millions of US Dollars	Per Cent of Total Trade	Millions of US Dollars	Per Cent of Total Exports	Millions of US Dollars	Per Cent of Total Imports
1950	5	0.4	5	0.8	--	--
1951	25	1.3	20	2.6	5	0.4
1952	30	1.6	25	2.9	5	0.5
1953	50	2.2	45	4.3	5	0.4
1954	95	4.0	85	8.0	10	0.8
1955	115	3.8	105	7.6	10	0.6
1956	135	4.3	105	6.4	30	2.0
1957	145	4.7	95	5.9	50	3.5
1958	165	4.4	110	5.7	55	3.0
1959	250	5.8	165	7.4	85	4.1
1960	310	7.8	175	8.9	135	6.7
1961	460	15.3	270	17.7	190	12.8
1962	485	18.1	295	19.3	190	16.5
1963	485	17.5	290	18.5	195	16.3
1964	490	15.2	295	16.9	195	13.3
1965	545	14.0	330	16.2	215	11.7
1966	500	11.8	310	14.0	190	9.3
1967	480	12.3	320	16.5	160	8.2
1968	470	12.5	325	16.7	145	8.0
1969	465	12.0	315	15.5	150	8.2
1970	460	10.9	295	14.4	165	7.6
1971	485	10.4	315	13.1	170	7.5
1972	525	8.9	375	12.2	150	5.3
1973	825	8.4	555	11.3	270	5.4
1974	1,360	9.9	885	14.0	475	6.4

TABLE 20--CONTINUED

Sources: Nai-Ruenn Chen, "China's Foreign Trade, 1950-1974", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), Table A.5, p. 648; The Editor, "China's Foreign Trade in 1974", Current Scene, Vol. XIII, No. 9, September, 1975, Table III, p. 6; The Editor, "China's Foreign Trade, 1973-1974", Current Scene, Vol. XII, No. 12, December, 1974, Table 3, p. 8; A. H. Usack and R. E. Batsavage, "The International Trade of the People's Republic of China", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Tables 5, 7, and 10, pp. 345, 347, and 350-351; US Central Intelligence Agency, Office of Economic Research, People's Republic of China: International Trade Handbook, Research Aid, December, 1972, Table 3, p. 11; Table 8 of this thesis.

^aConsists of Albania, Cuba, North Korea, Mongolia, North Vietnam, and Yugoslavia. Exports are valued on an f.o.b. basis and imports on a c.i.f. basis. Data are rounded to the nearest five million dollars.

dollars in 1974 alone); most of which has been financed under the Chinese aid programme.

Three Asian countries--North Korea, Mongolia, and North Vietnam--accounted for most of China's trade with the developing CPCs during the 1950s and the early 1960s, reaching 265 million dollars in 1963 (see Table 21). By 1970, however, trade with these countries had fallen to 190 million dollars as economic relations with Mongolia and North Korea deteriorated because of their political leanings toward the Soviet Union. On the other hand, trade with North Vietnam continued to expand, reflecting increases in Chinese aid. China's trade with the Asian CPCs increased to 735 million dollars in 1974 and represented over one-half of its trade with the developing CPCs. North Korea and North Vietnam accounted for virtually all of the increase; trade with Mongolia amounted to only a few million dollars annually in the last several years.

China's trade with the developing CPCs in Latin America and Europe--Cuba, Albania, and Yugoslavia--rapidly increased from insignificant levels in the mid-1950s to 325 million dollars in 1965, decreased to 230 million dollars in 1968, and recovered to 345 million dollars in 1973. In 1974, trade with these countries reached a record 625 million dollars. Following the establishment of the Castro government in 1959, Sino-Cuban trade rose quickly from 42 million dollars in 1960 to 223 million dollars in 1965, as China competed with the

TABLE 21

GEOGRAPHIC DISTRIBUTION OF CHINA'S TRADE
 WITH THE DEVELOPING CPCs,^a 1950-1974
 (Millions of US Dollars)

Year	Total			Asia ^b			Latin America & Europe ^c		
	Total	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports
1950	5	5	--	5	5	--	--	--	--
1951	25	20	5	25	20	5	--	--	--
1952	30	25	5	30	25	5	--	--	--
1953	50	45	5	50	45	5	--	--	--
1954	95	85	10	95	85	10	--	--	--
1955	115	105	10	115	105	10	--	--	--
1956	135	105	30	120	95	25	15	10	5
1957	145	95	50	130	85	45	15	10	5
1958	165	110	55	160	110	50	5	--	5
1959	250	165	85	245	160	85	5	5	--
1960	310	175	135	255	160	95	55	15	40
1961	460	270	190	255	160	95	205	110	95
1962	485	295	190	260	170	90	225	125	100
1963	485	290	195	265	165	100	220	125	95
1964	490	295	195	225	135	90	265	160	105
1965	545	330	215	220	130	90	325	200	125
1966	500	310	190	230	150	80	270	160	110
1967	480	320	160	240	180	60	240	140	100
1968	470	325	145	240	180	60	230	145	85
1969	465	315	150	200	145	55	265	170	95
1970	460	295	165	190	125	65	270	170	100
1971	485	315	170	225	150	75	260	165	95
1972	525	375	150	260	180	80	265	195	70
1973	825	555	270	480	355	125	345	200	145
1974	1360	885	475	735	580	155	625	305	320

TABLE 21--CONTINUED

Sources: Nai-Ruenn Chen, "China's Foreign Trade, 1950-1974", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), Table A.5, p. 648; The Editor, "China's Foreign Trade in 1974", Current Scene, Vol. XIII, No. 9, September, 1975, Table III, p. 6; The Editor, "China's Foreign Trade, 1973-1974", Current Scene, Vol. XII, No. 12, December, 1974, Table 3, p. 8; A. H. Usack and R. E. Batsavage, "The International Trade of the People's Republic of China", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Tables 5, 7, and 10, pp. 345, 347, and 350-351; US Central Intelligence Agency, Office of Economic Research, People's Republic of China: International Trade Handbook, Research Aid, December, 1972, Table 3, p. 11.

^aExports are valued on an f.o.b. basis and imports on a c.i.f. basis. Data are rounded to the nearest five million dollars.

^bConsists of North Korea, Mongolia, and North Vietnam.

^cConsists of Cuba, Albania, and Yugoslavia.

USSR as an aid donor. The volume of this trade declined gradually in the second half of the 1960s and steadied at an annual level of 120-130 million dollars in the early 1970s. Trade has involved mainly the exchange of Cuban sugar and nickel for Chinese rice, textiles, and other manufactured goods.

Since 1960, when Albania first supported China's challenge to Soviet hegemony in the world communist movement, Sino-Albanian trade has risen from a few million dollars each year in the 1950s to an annual average of 125 million dollars in the 1970s, with much of China's export surpluses representing aid deliveries. The PRC has supplied almost the whole gamut of Albania's needs, including machinery and equipment, iron and steel, nonferrous metals, and consumer goods. In return, Albania has been a staunch supporter of China in the Sino-Soviet dispute¹⁶ and an important source of chrome ore--a commodity needed for China's modern weapons programme. Sino-Yugoslav trade declined to insignificant levels in the 1960s due to worsening political relations between the two countries. Their relations have improved since 1969, when China and

¹⁶For over a decade, Albania assisted China's ideological and political interests in Europe, and served as China's mouthpiece at the UN, where for several successive years it introduced or promoted resolutions demanding the admission of Peking to membership in the international organization. Indeed, it was an Albanian resolution calling for the admission of the PRC which the UNGA finally adopted on October 25, 1971.

Yugoslavia signed a trade and payments agreement, and bilateral trade rose to almost 70 million dollars in 1973. In 1974, Sino-Yugoslav trade doubled to about 140 million dollars, with Chinese exports of 30 million dollars and Chinese imports of 110 million dollars.

4. Technical Assistance

China, like other aid donors, has made technical assistance a major element of its foreign aid programme because it realizes that the shortage of technical skills and trained administrative and managerial personnel in the LDCs provides a formidable obstacle to the effective implementation of its aid undertakings. However, Chinese technical assistance differs from that of other donors in two respects: (1) the participation of thousands of Chinese technical assistance personnel in the execution of its aid projects and (2) the unusually low cost to the recipient country of maintaining Chinese experts.

The Chinese characteristically flood their aid projects with large numbers of their own personnel, many of whom are manual labourers whose technical skills are limited but who provide the necessary manpower for certain labour-intensive projects in which China is involved. The extensive use of Chinese technicians has contributed to the rapid implementation of many of the PRC's aid projects by avoiding many of the labour problems and associated delays encountered

under the aid programmes of other donors, who depend on local workers to perform all but the highly skilled and professional jobs. In addition, Chinese experts are sent to aid-recipient countries to teach their local counterparts the necessary techniques, and projects are usually planned in such a way that local personnel are able to manage them after a short period of training, thus eliminating the need for a prolonged stay by Chinese technicians.

The number of Chinese technicians sent abroad under technical assistance programmes has grown to sizable magnitudes over the years, rising from some 25 technicians in 1957 to an estimated 22,945 in 1974 (see Table 22). Prior to 1963, most technicians were employed in a few Asian countries. Since that time, however, the overwhelming share has been sent to African countries. Indeed, of the 22,945 Chinese economic technicians in the LDCs in 1974, more than 20,000 were in Africa (see Table 23). In Africa, it is estimated that one Chinese technician is present for every 5,000-6,000 dollars of project aid expended.¹⁷

The sharp fluctuations in the number of Chinese technicians employed each year in the LDCs have been attributable mainly to the tempo of activities connected with a few labour-intensive construction projects. During the height of

¹⁷Fogarty, "China's Economic Relations", p. 733.

TABLE 22
 NUMBER OF CHINESE ECONOMIC TECHNICIANS
 IN THE LDCs,^a
 1957-1974

Year	Number
1957	25
1958	85
1959	850
1960	975
1961	1,415
1962	815
1963	470
1964	2,160
1965	4,950
1966	5,150
1967	4,565
1968	3,590
1969	4,950
1970	8,110
1971	18,600
1972	22,165
1973	23,540
1974	22,945

Sources: The Editor, "China's Foreign Aid in 1972", Current Scene, Vol. XI, No. 12, December, 1973, Table I, p. 4; Leo Tansky, "Chinese Foreign Aid", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), Table 2, p. 376; Leo Tansky, "China's Foreign Aid: The Record", Current Scene, Vol. X, No. 9, September, 1972, Table II, p. 6; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1974, Report No. 298, January 27, 1976, Appendix, Table 5; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1973, Research Study INR RS-20, October 10, 1974, Appendix, Table 6.

^aMinimum estimates of the number of persons present for a period of one month or more. Includes labourers in some countries, especially Tanzania, Zambia, and Somalia.

TABLE 23

GEOGRAPHIC DISTRIBUTION OF CHINESE ECONOMIC
TECHNICIANS IN THE LDCs, 1969-1974

Area	1969	1970	1971	1972	1973	1974
Total	4,950	8,110	18,600	22,165	23,540	22,945
Africa	2,975	6,960	17,200	20,275	22,010	20,675
Asia and Middle East ^a	1,975	1,150	1,400	1,860	1,480	2,075
Latin America	--	--	--	30	50	75
Europe	--	--	--	--	--	120

Sources: The Editor, "China's Foreign Aid in 1972", Current Scene, Vol. XI, No. 12, December, 1973, Table I, p. 4; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1974, Report No. 298, January 27, 1976, Appendix, Table 5; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1973, Research Study INR RS-20, October 10, 1974, Appendix, Table 6.

^aExcluding the large number of Chinese personnel working on the Karakoram Highway in Pakistan.

construction of the San'a-Al Hudaydah road in North Yemen in 1961, for example, more than 70 per cent of all Chinese technicians in the LDCs were employed in that country.¹⁸ The growth of the number in the LDCs in 1964-1966 was largely a function of the level of construction of a road in Nepal and several plants in Guinea and Mali. As work on the Tan-Zam Railroad accelerated in the 1970s, the number of technicians in the LDCs increased from an estimated 4,950 in 1969 to a peak of 23,540 in 1973, about 16,000 of whom were employed on the railroad.¹⁹

The large influx of Chinese technicians is made possible by their low cost. China pays all the foreign exchange costs, such as transportation and salaries, of the technicians. The amount of these free technical services has totalled about one billion dollars since the start of China's aid programme in the LDCs (see p. 140 above). The LDC is required to pay only the local costs to maintain Chinese technicians, and these are covered by the Chinese credit.²⁰ Since the PRC requires that its experts live at a standard

¹⁸Tansky, "Chinese Foreign Aid", p. 376.

¹⁹Fogarty, "China's Economic Relations", p. 733.

²⁰Local costs usually include board, pocket money, medical care, insurance, local transportation, and office facilities. In the case of other CPC aid donors, the LDC must also pay the foreign currency portion of the experts' salaries.

comparable to that of their counterparts.²¹ these expenditures are kept to a minimum. It is estimated that the local cost outlays for Chinese technicians amount to an average of 55 dollars per month per man.²²

Another typical feature of Chinese technical assistance is the use of mobile medical groups. Medical groups generally consist of between 20 and 50 persons, including doctors and medical workers. Every year each group is believed to treat about 50,000 out-patients and to carry out an average of 3,000 surgical operations. The first such group started work in Algeria in 1963, and Chinese medical activities have since been going on in at least 11 African countries and two countries in the Middle East.²³ The medical groups, which are as a rule replaced by new groups from China every two years, frequently work in remote rural areas. Other tasks to be solved by the medical groups include the establishment of hospitals and factories producing pharmaceutical products. These installations are usually Chinese donations. In addition, Chinese doctors attached to Chinese personnel working at aid

²¹In fact, several aid agreements mention explicitly that the living conditions of Chinese experts should not be superior to those of local personnel of the same grade.

²²Tansky, "Chinese Foreign Aid", p. 377.

²³Africa: Algeria, Congo (Brazzaville), Equatorial Guinea, Guinea, Mali, Mauritania, Sierra Leone, Somalia, Sudan, Tanzania, and Tunisia; Middle East: North Yemen and South Yemen.

projects in developing countries also treat the local population.

In addition to sending technicians abroad to plan or supervise the construction of aid projects, the technical assistance programmes of most donor countries usually involve two other important components, viz. the training of LDC technicians in the donor country and the awarding of academic scholarships for LDC students to study in the donor country. In the case of China, however, endeavours in these fields have been on a fairly modest scale. In contrast with the large number of Chinese technicians sent abroad, only about 750 LDC technical personnel--most of them from Cambodia and North Yemen--have trained in China, and no LDC trainees have been in the PRC since 1969. The Chinese apparently believe that the relatively simple skills required to run Chinese-built aid projects are better acquired through in-country, on-the-job training rather than at PRC domestic facilities.

Because of the vast cultural and language differences, an educational system already strained by China's domestic requirements, and a stage of economic development likely to impress only those from the most backward of developing countries, the Chinese have allowed very few LDC academic students to study in China. About 700 such students--largely from Africa--were in China at the time that Chinese universities

were closed to foreigners in 1966.²⁴ Since the Cultural Revolution, the PRC has allowed only about 100 Tanzanian and Zambian students to enter China for studies related to the Tan-Zam Railroad, except in 1974 when acceptance was broadened to include a small number of other entrants. When the Chinese accept trainees and students, they usually pay for their accommodations and training expenses in China, while the LDC is charged for travel to and from China, internal travel, and pocket money for the trainee or student. It is estimated that basic monthly expenses per trainee or student amount to about 60-70 dollars.²⁵

5. Military Assistance

China's military aid programme in the LDCs is small relative to the size of its economic aid programme. From 1958 to the end of 1974, the PRC extended about 550 million dollars of military assistance to the LDCs, of which 300 million

²⁴In September 1966, all foreign students in China were informed that university programmes were being temporarily suspended, because the time and energies of faculties and staff of educational institutions would be absorbed by the Cultural Revolution, and were asked to return home. The Chinese also expelled 15 Soviet students, which prompted a Soviet retaliatory move, and the USSR expelled some 65 Chinese students in the USSR at the time.

²⁵Tansky, "Chinese Foreign Aid", p. 377.

dollars was provided since 1970.²⁶ Most of China's military aid is provided as outright grants, the bulk flowing to Pakistan and Tanzania. For example, these two countries accounted for over 90 per cent of the military aid actually disbursed to the LDCs between 1964 and 1973 (see Table 24). The balance of China's military aid disbursements during this period went to Burundi, Congo (Brazzaville), Guinea, Sudan, and Zambia in Africa; Cambodia and Sri Lanka in Asia; and Syria in the Middle East. In addition, Indonesia received military aid from the PRC in the late 1950s.

The addition of 10 new arms clients, mostly in Africa, since 1969 has brought the number of LDCs receiving Chinese military aid up to 18. In all cases, these new clients have previously received Chinese economic aid. Except for aid to Pakistan and Tanzania, recent agreements have involved small arms, ammunition, vehicles, and training--aid that does not call for a substantial Chinese military presence.

About three-fourths of all Chinese military aid to the LDCs has gone to Pakistan. For a long period after the 1965 India-Pakistan War, the PRC was the only country willing to supply Pakistan's military requirements. Chinese equipment, which accounts for about one-half of Pakistan's air and ground

²⁶The figures on commitments of Chinese military aid presented in this section are based on Fogarty, "China's Economic Relations", p. 735, and Tansky, "Chinese Foreign Aid", pp. 379-380.

TABLE 24

VOLUME AND GEOGRAPHIC DISTRIBUTION OF
CHINA'S MILITARY AID DISBURSEMENTS TO THE LDCs,
CUMULATIVE 1964-1973

Recipient	Millions of US Dollars
Total	413
Africa	81
Burundi	2
Congo (Brazzaville)	3
Guinea	6
Sudan	7
Tanzania	62
Zambia	1
Asia and Middle East	332
Cambodia	13
Pakistan	312
Sri Lanka	5
Syria	2

Source: USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1974, Report No. 298, January 27, 1976, Appendix, Table 9.

inventories, includes MIG jet fighters, IL-28 jet light bombers, light and medium tanks, and a wide variety of ground forces, communications, and support equipment.

Tanzania, China's second largest LDC arms client, accounts for approximately 10 per cent of the PRC's military aid. It is the only LDC that has become almost completely dependent on China for arms and military training. Since 1964, the PRC has delivered over 60 million dollars of Chinese military equipment to Tanzania, including MIG jet fighters, light tanks, patrol boats, and various ground forces and support equipment. China also has constructed naval and air facilities in Tanzania and has trained Tanzanian military personnel.

The Chinese experience in military aid contrasts sharply with Soviet experience. The USSR has built up a large arms trade with the LDCs over the past 20 years and has signed military agreements totalling almost 12 billion dollars. Moreover, in some cases the Soviet Union has succeeded in creating LDC dependence on its equipment and spare parts. The PRC has not challenged Soviet arms supply dominance among communist nations, even in Black Africa. The volume of Chinese arms moving clandestinely to "liberation groups", particularly in Africa, has not been significant. Much of this traffic moves with the approval of the country in which guerilla groups are harboured, e.g. southern African groups in Tanzania and Zambia.

China has also provided military assistance to other CPCs, such as Albania, North Korea, and North Vietnam, which totalled about 900 million dollars at the end of 1971. North Vietnam, the largest recipient, received an estimated 750 million dollars of Chinese military aid between 1955 and 1971,²⁷ the bulk of it since 1966. The PRC's military aid to North Vietnam has featured ground forces equipment, ammunition, and various support equipment. Deliveries of Chinese arms to indigenous guerilla forces in Cambodia, Laos, and South Vietnam were handled and controlled by the North Vietnamese.

The only other CPCs that have received sizable amounts of Chinese arms are Albania and North Korea, probably about 150 million dollars worth through 1971. China has been the sole supplier of arms to Albania since the early 1960s. The Chinese have provided almost all the materiel for Albania's ground forces and have equipped and trained Albania's naval forces. The Chinese have not provided any significant amount of military aid to North Korea since early in 1969, but an agreement to provide such aid may have been signed in 1970.

²⁷In comparison, Soviet military aid to North Vietnam amounted to about 1.7 billion dollars during this period, and US military aid to the Far East and Pacific region totalled 21.2 billion dollars, most of which was probably destined for South Vietnam. For details, see Tansky, "Chinese Foreign Aid", p. 379, and US Department of Commerce, Statistical Abstract of the United States, Table 1317, pp. 784-786.

CHAPTER IV

CHINA'S FOREIGN AID POLICIES

China's foreign aid policy is guided by a set of eight principles which were first enunciated in 1964 and which are often regarded as a model for other aid donors. Section 1 lists these principles and examines some of the reasons for China's success as an aid donor. The composition of Chinese aid is discussed in Section 2. Except for small contributions to some UN organizations, China's economic assistance has been exclusively bilateral. About two-thirds of this assistance has been provided in the form of aid projects, primarily in the transportation, light industrial, and agricultural sectors. The Tan-Zam Railroad is the most ambitious of China's aid projects. Section 3 describes the financial terms and conditions of Chinese aid. Grants (officially referred to as "non-repayable loans") have accounted for about 15 per cent of aid to the LDCs, compared to over one-half of aid to other CPCs. The rest of Chinese aid has consisted of long-term loans on highly concessional terms. They are usually tied to the procurement of goods and services in the PRC and repayable in local goods. Long-term financing is often provided to cover the local cost component of Chinese aid projects. The various motives for China's aid-giving are

dealt with in Section 4. While the importance of the humanitarian motive should not be underestimated, it is certainly not the whole case. As pointed out in Section 4, self-serving motives, notably political and economic interests based on narrow nationalistic goals, have played a considerable role in China's foreign aid policy.

1. Aid Management

The main responsibility for China's foreign aid programmes and policies lies in the hands of the Ministry for Economic Relations with Foreign Countries. Originally constituted as an Office of the State Council, it was raised to a Commission of the State Council in June, 1964 before it was transformed into a Ministry in April, 1971. Since January, 1961 Fang Yi has been the head of the Chinese aid administration. He holds the rank of Minister and is assisted by five Vice-Ministers. The Association of the Chinese People for Foreign Cultural Relations is in charge of cultural, technical, and scientific co-operation. The Committee for the Promotion of International Trade and the foreign trade organizations are concerned with the commercial aspects. In particular, the Complete Plant Export Corporation is responsible for the exportation of whole plants, usually as part of an economic aid agreement. Emergency relief assistance is provided through the Chinese Red Cross. In the recipient countries, aid matters are dealt with by the Chinese Embassy.

Chinese foreign aid policy is guided by eight principles which were first stated by Premier Chou En-lai while visiting Mali in January, 1964 and which have been reconfirmed since then on several occasions. In short, Chou's "Eight Principles" state that China's economic and technical assistance should be based on: (1) equality and mutual benefit and not charity; (2) respect of the recipient country's sovereignty, with no conditions attached nor special privileges for China; (3) interest-free or low-interest loans with a possibility of extending the repayment period if necessary; (4) encouraging self-reliance and independence of the recipient's economy; (5) low capital input with quick rates of return; (6) best quality equipment and material of Chinese manufacture at international market prices with free replacement if they are found to be unsuitable; (7) full training of local counterparts; and (8) willingness of Chinese experts to accept local living standards, not make any special demands, nor enjoy any special amenities.¹

Compared with many other foreign aid programmes, the Chinese have had a good performance record since 1970. Earlier frictions--charges of subversion and inefficiency--have practically disappeared and the LDCs appear satisfied with the operation of China's aid programme. The Chinese have avoided

¹For the actual text of a typical Chinese aid agreement, see Appendix E of this thesis.

some of the bottlenecks and delays that impede many aid programmes by assuming a larger share of responsibility for implementation. They provide the administration, skilled personnel, and usually large numbers of unskilled labourers as well; and they usually retain control over projects at least until they are operational.

China's success as an aid donor also is attributable to its understanding of the needs of developing countries, in part because China too is a developing nation. A major factor in this success is the character of its aid projects--mostly light industrial, agricultural, and transportation. These projects, with their simple machinery and labour-intensive methods, seem to correspond to what many recipients, particularly those in Africa, need. The skills required to operate the completed projects also are more consistent with the ability of the local labour force and new techniques are easily mastered.

In addition, the intensive use of labour helps to ease unemployment problems. For example, the Chinese-built Urafiki (Friendship) textile mill in Dar Es Salaam² and the

²In 1975, it employed over 3,000 workers. Its production capacity was increased from 12 million metres in 1969 to 27 million in 1974 and possibly 35 million metres in 1976. All tasks, including top management and engineering functions, are carried out by Tanzanians who were trained by Chinese instructors. All maintenance and repair work is carried out in the factory's workshop, thus decreasing the necessity for importing spare parts.

Kinsoundi mill in Brazzaville are among the largest industrial employers of labour in their respective countries. Much of Chinese aid to Africa has been concentrated in the rural sector, where Chinese methods in employing simple machinery and emphasizing labour-intensive methods have proved useful.

2. Composition of Chinese Aid

Until its admission to the UN in October, 1971, the PRC was not a member of any international organization. Therefore, China did not participate in any multilateral aid programmes and its economic assistance at that time was exclusively bilateral. Since 1971, however, the PRC has joined a number of UN-related and other international organizations.³ In 1973-1974, China contributed the equivalent of about two million dollars in Chinese currency (non-convertible) to the UN Development Programme and made special contributions to the UN Industrial Development Organization totalling less than

³The PRC assumed the China seats in the UN General Assembly and Security Council in November 1971, and is currently a member of the following UN-related and other international organizations: the World Meteorological Association; the United Nations Educational, Scientific, and Cultural Organization; the International Labour Organization; the World Health Organization; the International Telecommunications Union; the Universal Postal Union; the Food and Agricultural Organization; the International Maritime Consultative Organization; and the United Nations Industrial Development Organization. In addition, the PRC is an active member of the Economic Commission for Asia and the Far East, and has been invited to attend the General Agreement on Tariffs and Trade, the International Atomic Energy Agency, and the International Civil Aviation Organization. China is not a member of the International Monetary Fund or the World Bank.

one million dollars. At the 1975 UNDP pledging conference, the PRC donated another 4.4 million yuan (2.2 million dollars) to the UNDP and 200,000 yuan (about 100,00 dollars) to the UN Capital Development Fund. The UNDP has encountered difficulties in spending China's contributions and other soft currency donations which are tied to the donor country. Most of the non-convertible Chinese yuan spent by the UNDP has gone into a fisheries project in Sri Lanka.

About two-thirds of China's economic assistance to the LDCs has been provided as project aid.⁴ As a rule, these commitments cover expenditures for geological surveys and feasibility studies, the delivery of machinery and equipment and other material not available in the recipient country, technical assistance, and the training of indigenous personnel. If commodity assistance which serves to finance local project costs is included, project aid would amount to over three-quarters. The balance of China's economic assistance has been in the form of commodities and foreign exchange, which goes mainly to finance deficits in the recipients' budgets, to fund their trade deficits, and to cover some of the local currency costs of Chinese aid projects.

China's project assistance provides easily perceived development benefits in a short period of time. Profiting from its own experiences as a developing nation, the PRC has

⁴Fogarty, "China's Economic Relations", p. 734.

emphasized low-cost, easily-operated projects. These projects often provide simple processing facilities for local raw materials. For example, light industrial projects--such as textile, plywood, paper, food processing, and agricultural implements plants--are constructed at low cost and put into production rapidly. Furthermore, they draw on large local manpower and material resources. Usually, minimal skills are required for their operation and maintenance. These plants often involve the production of goods that the LDCs have heretofore imported in large amounts.

Commodities and cash transfers--often in the form of outright grants--are an important component of Chinese aid to the LDCs, accounting for about one-third of the total. Commodities are used to generate currency to cover local project expenditures. China also has provided more than 400 million dollars of commodities and hard currency as balance-of-payments support, not necessarily related to development projects.

The sectoral distribution of China's economic assistance has not varied much over time. Chinese aid normally goes to economic sectors which match its industrial capabilities; these are also areas of development that are basic to the requirements of most LDCs. Moreover, China pays attention to the economic and social structure of the individual recipient country when deciding on the sectoral allocation of its aid programme. Whereas in the CPCs Chinese assistance has been mainly directed toward the establishment of heavy industry

(e.g. iron and steel) and manufacturing, in the LDCs China's aid has concentrated on the construction of transportation facilities, on immediately productive small-scale projects, mainly in light industry and food processing, and on agricultural development and medical assistance.

The largest share of Chinese aid to the LDCs has been allocated for the development of infrastructure, primary industries, and agriculture. About 35 per cent of this aid has been designated for the construction of railways, roads, bridges, and ports; another 23 per cent for labour-intensive light industrial plants; and about 15 per cent for agriculture and related multipurpose projects. Only five per cent of China's economic assistance to the LDCs has been allocated for heavy industry, all in Pakistan. (The PRC also has undertaken heavy industrial projects in Albania, North Korea, and North Vietnam.) The remainder of Chinese aid has been channelled into urban development, geological surveys, and medical, tourist, sports, educational, and cultural facilities.⁵

The typical Chinese aid project, particularly in African countries, is a pilot farm or a small-scale light industrial plant, in most cases a textile mill. Import substitution, i.e. "the satisfaction of a greater proportion of a country's total demand for goods (production plus imports)

⁵Ibid.

through its own domestic production",⁶ is a main consideration. By contrast, in Asian countries road building and power stations figure more prominently in China's aid programme, many of them built with large contingents of Chinese workers. In setting up as well as in equipping its projects, China uses intermediate, often simple technology which facilitates the creation of local employment and the use of local raw materials.

Tables 25 and 26 list by sector all of China's aid projects in the LDCs as of mid-1971 and at the end of 1973, respectively. The largest number (over one-third) of the more than 350 projects in Table 26 are light industrial, the most important sector aided. The 127 projects in this field are distributed over 55 different branches of industry--an indication of the wide range covered by Chinese aid. On the other hand, China has been reluctant to offer aid in the field of heavy industry, where the Taxila project in Pakistan (see p. 158 above) is as yet the only one it has undertaken in the LDCs.

⁶ Jose A. Datas-Panero, "Import Substitution", Finance and Development, Vol. 8, No. 3, September, 1971, p. 34. Datas-Panero argues that for the LDCs "an element of import substitution is, therefore, a necessary, although not sufficient, condition for expanding domestic markets and helping to sustain a satisfactory rate of industrialization" (p. 35). However, he concludes that while "import substitution has helped developing countries to achieve a faster rate of industrial expansion than would have occurred in the absence of such a strategy", the economic costs "have often been substantially greater than the benefits and worsened the outlook for long-term industrial development" (p. 39).

TABLE 25
 SECTORAL DISTRIBUTION OF CHINA'S
 AID PROJECTS IN THE LDCs: 1971^a

Type of Project	Total	Completed	Under Construction	Planned
Buildings	39	31	1	7
Craft workshops	6	6	--	--
Industrial projects	90	62	8	20
Power stations, urban and rural electrification	13	7	4	2
Agriculture	41	18	13	10
Medical aid, public health and hospitals	17	17	--	--
Transportation	39	24	11	4
Miscellaneous	14	10	--	4
Total	259	175	37	47

Source: OECD, Flow of Resources to Developing Countries (Paris: OECD, 1973), Table 3, p. 401.

^aNumber of projects completed, under construction, or in the planning stages as of June, 1971.

TABLE 26

SECTORAL DISTRIBUTION OF CHINA'S
AID PROJECTS IN THE LDCs: 1973^a

Type of Project	Total	Completed	Under Construction ^b	Planned
Heavy Industry	1	1	--	--
Mining	3	2	--	1
Oil Industry	2	1	1	--
Light Industry--Textile Mills	27	13	9	5
--Other	100	63	9	28
Broadcasting Stations	9	9	--	--
Buildings	41	31	4	6
Power Stations--Hydroelectric	12	7	--	5
--Thermoelectric	4	2	--	2
Electrification	7	3	--	4
Transportation--Roads	24	12	8	4
--Railway Lines	4	1	1	2
--Bridges	15	11	2	2
--Miscellaneous	4	2	1	1
Medical Aid--Medical Groups	14	4	10	--
--Hospitals	10	7	3	--
--Pharmaceutical Plants	3	3	--	--
Agriculture	38	16	9	13
Irrigation and Water Supply	20	10	4	6
Other Projects	17	6	--	11
Total	355	204	61	90

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Source: Wolfgang Bartke, *China's Economic Aid*, trans. by Waldtraut Jarke (London: C. Hurst and Company, 1975), Table 11, p. 204.

^aNumber of projects completed, under construction, or in the planning stages at the end of 1973.

^bIncluding 10 projects which had not been completed when economic aid was discontinued in Burma, Ghana, and Indonesia.

For the moment, China seems to encounter certain problems in satisfying the relatively sophisticated requirements of the richer developing countries, such as the Latin American nations, since few aid agreements have been signed with these countries and even less disbursed.

One of China's special abilities lies in the field of textiles. The experience which enables China to carry out large-scale projects in the textile industry dates back to the semi-colonial era when huge textile factories were erected in Chinese cities, in particular Shanghai. These factories are still the backbone of China's textile industry. From its beginning, therefore, the PRC had a relatively large potential of skilled labour in this field, of which it did not hesitate to make use when it started to extend foreign aid in the 1950s. By the end of 1973, this type of aid had benefited 18 countries, where over a dozen textile mills were completed and a number of others were under construction or at the planning stage. Each of these factories has between 10,000 and 40,000 spindles and between 100 and 1,000 looms. The construction costs are usually between four million dollars and 16 million dollars per mill.

Another major activity of Chinese aid is transportation; the PRC has done much in all aspects of this sector. In particular, road building has been undertaken in Nepal, Pakistan, Somalia, Sudan, North Yemen, South Yemen, and several other countries. However, the most important project in the field

of transportation is the Tanzania-Zambia Railroad. The decision to embark upon the Tan-Zam Railroad project meant a break with the previous pattern of China's aid programme, since until then China had steered away from large prestige projects. The Tan-Zam Railroad is the most ambitious of Chinese aid projects (costing over 400 million dollars), and it was this spectacular undertaking which made China suddenly known as an important donor country.⁷

In that project, China set new standards both with regard to its comparatively low costs and the short time of construction. At the peak of construction, about 16,000 Chinese and 36,000 Africans were employed on the 1,160-mile railway which runs from the port of Dar es Salaam in Tanzania to the Zambian copperfields. Including sidetracks, the length is 1,276 miles, of which over five miles are in 21 tunnels and about nine miles consist of 300 bridges. The first section of 314 miles from Dar es Salaam to Mlimba was practically completed by the end of 1971, the Tanzanian section in September, 1973, and the whole line was finished in 1975, one year ahead of schedule. There are 147 stations on the railroad and six

⁷The World Bank made an analysis of the project in the mid-1960s and declared the construction of a railway between Tanzania and Zambia to be unprofitable. A mixed Canadian-French consortium arrived at the opposite conclusion but could not find anyone to provide the funds. After failing to obtain Western financial backing, Tanzania and Zambia turned to China for assistance in the project.

repair shops which would be able to carry out all maintenance and repair work. The initial freight capacity of 12,000 tons a month is believed to have increased to about 40,000 tons a month in 1976. The railway line employs approximately 5,000 people of whom 200 have received training in China, but when running at peak capacity it might employ up to 12,000 Tanzanians and Zambians.

About one-half of the 402 million dollar loan was provided for the railway equipment, including 200 diesel locomotives, 2,100 freight wagons, and 100 passenger carriages, all imported from China. The PRC also provided free technical services for the project. The other half of the loan was for Chinese consumer goods to be sold locally to finance local costs. The loan agreement further stipulated that China would lend hard currency free of interest when there is a shortfall in local costs, and Tanzania is believed to have made use of this offer to the extent of at least five million dollars.

China has started agricultural schemes in more than a dozen African countries. In some instances, the PRC continued agricultural projects which had been started by Taiwan. In addition to giving advice on rice cultivation, the Chinese have established rural primary processing plants, such as cigarette factories, tanneries, sugar works, and textile mills which process locally-grown cotton. State farms have also been established in several countries. A typical Chinese rural project is the irrigation scheme at Mbarali, in southwest

Tanzania, which will provide irrigation for 8,000 acres, capable of producing 160,000 bags of paddy a year. The project also includes the construction of a 30 kilowatt power station to serve local needs and to provide power for a rice mill, a brick factory, and a poultry farm. The Mbarali project illustrates the best aspects of Chinese aid: it is simple, integrated, and brings quick returns on the initial investment.

The PRC has also provided emergency relief assistance, usually in the form of aid in kind such as foodstuffs (e.g. rice and wheat), medical supplies, and blankets, but in some instances also of cash. This aid had consisted entirely of grants and it has amounted to less than 10 million dollars annually in recent years. Relief aid is also given to countries with which China has not concluded economic assistance agreements, such as Malaysia and the Philippines.

3. Financial Terms and Conditions

The financial terms of Chinese aid are highly concessional. Chinese grants to the LDCs (officially referred to as "non-repayable loans") totalled more than half a billion dollars between 1956 and 1974--or about 15 per cent of commitments--and has averaged about 40 million dollars annually in

recent years.⁸ In addition, the PRC has provided the equivalent of about one billion dollars of grant aid in the form of free technical services for development projects (see p. 140 above). Since all aid given to North Vietnam over the last 10 years is believed to have consisted exclusively of grants, grants have accounted for over one-half of Chinese aid to the CPCs.⁹ Thus, about one-third of China's economic aid to all developing countries has been in the form of grants.

China's grant aid has consisted largely of commodities, foreign exchange, and medical, educational, and cultural equipment. Next to North Vietnam, Pakistan is the largest recipient of such assistance. In early 1972, China converted 110 million dollars of loans previously extended to Pakistan into grants. Other major beneficiaries of Chinese grants include Cambodia, Egypt, Nepal, Sri Lanka, and Zambia. The rest was spread over a great number of countries, frequently in the form of relief assistance.

The majority of China's economic assistance has consisted of loans on concessional terms. (For some examples of Chinese loan terms, see Table 27.) At the start of its aid programme, the PRC extended several low-interest loans (2.0-2.5 per cent interest with repayments spread over 10-15 years in

⁸Fogarty, "China's Economic Relations", p. 734; USDS, Aid and Trade in 1974, p. 7.

⁹DAC, 1975 Review, p. 177; OECD, Flow of Resources, p. 402.

TABLE 27
 EXAMPLES OF CHINESE LOAN TERMS

Recipient	Commitment Year	Face Value (Millions of US Dollars)	Interest Rate (Per Cent)	Grace Period (Years)	Maturity (Years)	Grant Element ^a (Per Cent)
Indonesia ^b	1958	11	2.5	0	10	29
Sri Lanka	1958	11	2.5	2	13	38
Guinea	1960	26	0	9	19	74
Ghana	1961	20	0	5	20	69
Syria	1963	16	0	12	22	80
Congo (Brazzaville)	1964	25	0	15	25	85
Egypt	1964	80	0	7	18	70
Sri Lanka ^c	1964	4	0	2	13	51
Pakistan ^e	1970	200	0	10	30	84
Sudan	1970	42	0	8	23	76
Tanzania/Zambia ^d	1970	402	0	12	43	90
South Yemen	1970	43	0	8	23	76
Burma	1971	57	0	8	19	72
Iraq	1971	45	0	12	23	81
Peru	1971	42	0	10	20	76
Sri Lanka ^e	1971	32	0	3	15	57
Chile	1972	63	0	10	20	76
Dahomey	1972	44	0	15	31	88
Malta	1972	45	0	11	22	79

TABLE 27--CONTINUED

Sources: Wolfgang Bartke, China's Economic Aid, trans. by Waldtraut Jarke (London: C. Hurst and Company, 1975), pp. 34, 39, 41, 42, 44, 45, 47, 48, 51, 57, 58, 62, 63, 65, and 67; OECD, Flow of Resources to Developing Countries (Paris: OECD, 1973), Table 4, p. 403.

^aCalculated on the basis of a 10 per cent discount rate and equal annual repayments. The figures should be interpreted with caution since repayments are often made in the form of delivery of goods.

^bThe terms were later changed to zero per cent interest, five years grace, and 16 years maturity, thus increasing the grant element to 63 per cent.

^cThe maturity was variously reported as either 30 years or 20 years. In the latter case, the grant element would be 76 per cent.

^dThe grace period and maturity were also reported as five years and 36 years, respectively. In this case, the grant element would be 81 per cent.

^eAccording to Tansky, "Chinese Foreign Aid", pp. 375-376, repayment of the hard currency credit to Sri Lanka will not begin until 1983, yielding a grant element of 80 per cent.

equal annual instalments) totalling 70 million dollars,¹⁰ or about two per cent of total commitments to the LDCs by 1974.¹¹ During the late 1950s, interest-free loans began to predominate, and since 1960 (with the exception of a 0.5 million dollar loan to Tanzania in 1964), all Chinese loans have been free of interest.

In recent years, China has softened the already liberal terms of its aid to the LDCs. The typical Chinese loan commitment of the 1960s was interest-free with a maturity of 20 years, including a grace period of 10 years.¹² In the 1970s, longer grace periods have been allowed, frequently ranging up to 20 or 30 years, and the maturities have often been longer than before, reaching 40 to 60 years.¹³ These generous payment terms make Chinese aid an attractive form of assistance, particularly to the poorer LDCs.

On the basis of a 10 per cent discount rate, Chinese loans extended in recent years to the LDCs have usually carried

¹⁰Of which 10.5 million dollars was later declared interest-free.

¹¹Wolfgang Bartke, China's Economic Aid, trans. by Waldtraut Jarke (London: C. Hurst and Company, 1975), Table 6, p. 17; OECD, Flow of Resources, p. 402.

¹²OECD, Flow of Resources, p. 402; Tansky, "Chinese Foreign Aid", p. 375.

¹³Fogarty, "China's Economic Relations", p. 734; USDS, Aid and Trade in 1974, p. 6.

a grant element of over 90 per cent.¹⁴ Including grants, total commitments to the LDCs have had a grant element of almost 95 per cent. If aid to other CPCs is also included, the total grant element of Chinese aid to the developing countries exceeds 95 per cent. In addition, in several cases China has granted a prolongation of the grace period or the repayment period, or has cancelled the debt altogether.

Because of a lack of available foreign exchange, Chinese aid is almost exclusively tied to the procurement of goods and services in the PRC, but occasionally China has extended hard currency credits. The repayment terms usually provide for repayment of principal and interest (if any) in commodity exports of the recipient country or occasionally, upon mutual agreement, in domestic or convertible currency. That repayment can often be made in local goods rather than hard currency is attractive to recipients. In many cases, this arrangement helps to ease the LDC's repayment burden, especially where non-traditional exports, not easily sold in world markets, are used.

One of the advantages of Chinese aid is that their aid programmes often provide long-term financing to cover the local cost component of aid projects, using the proceeds of sales of Chinese consumer goods and commodities on LDC markets.

¹⁴For a definition of grant element, see p. 26, n. 23 above.

The rate at which an aid recipient accumulates local funds to finance its share of a project often determines the pace of progress on that project. The availability of such financing, therefore, has contributed to the rapid implementation of many Chinese projects. About one-half of the loan for the Tan-Zam Railroad, for instance, was provided for the importation of Chinese goods to be sold on the domestic market to generate funds for the local costs of the project. These funds are intended to cover the purchase of land, local building materials, equipment, and the payment of the salaries of local workers.

However, this method of financing local costs, which involves the purchase by recipient countries of Chinese goods, is not without problems. For example, the LDC must limit or suspend imports from customary suppliers, with consumer well-being dependent on the price and quality competitiveness, as well as timeliness of delivery, of Chinese goods. In the past, there has been criticism of the quality of Chinese consumer goods, although recently there have been improvements. Since China has few capital goods to offer, recipient countries are often in the difficult position of virtually having to take whatever is available. Furthermore, when local project costs are relatively large, the recipient may find it difficult to absorb sufficient acceptable Chinese goods to generate the required funds. In some instances, Chinese imports may also conflict with the developing country's plans for the

development and protection of its own industry.

4. Motivation of Chinese Aid

Why do the developed countries give foreign aid to the developing countries? A large part of the foreign aid literature has been concerned with this fundamental question.¹⁵ The question asked in this section is much more specific: Why has the PRC extended over six billion dollars of economic assistance to the developing countries, especially when it is still at a relatively low stage of economic development and many of its aid recipients have a higher per capita income than China itself? In attempting to answer it, the discussion is divided into three main topics--the humanitarian motive, the political motive, and the economic motive.

¹⁵The associated question--Why should the developed countries give foreign aid to the developing countries?--has also received considerable attention in foreign aid literature. Indeed, the two questions are so closely related (although in many cases their answers may be completely different) that they are often dealt with simultaneously. For example, see P.T. Bauer, Dissent on Development: Studies and Debates in Development Economics (Cambridge, Massachusetts: Harvard University Press, 1972), pp. 95-135; Francis X. Colaco, Economic and Political Considerations and the Flow of Official Resources to Developing Countries (Paris: OECD, 1973), pp. 9-64; DAC, 1973 Review, pp. 16-29; Harry G. Johnson, "The Ideology of Economic Policy in the New States", Chap. 2 of Chicago Essays in Economic Development, ed. by David Wall (Chicago: The University of Chicago Press, 1972), pp. 36-40; Vincent Massaro, "Aid from the Donor's Point of View", Journal of World Trade Law, Vol. 4, No. 2, March: April, 1970, pp. 287-303; Goran Ohlin, Foreign Aid Policies Reconsidered (Paris: OECD, 1966), pp. 13-54; Pearson, Partners in Development, pp. 7-11; David Wall, The Charity of Nations: The Political Economy of Foreign Aid (New York: Basic Books, Inc., 1973), pp. 32-49.

a. The Humanitarian Motive

Ostensibly, Chinese economic aid is motivated by humanitarian interests. In this respect, the Chinese aid programme does not differ from that of any other donor. The argument in support of foreign aid on these grounds is a moral one, viz. that the richer countries have a moral duty to reduce the degree of poverty and deprivation in the poorer countries and to assist in the promotion of their economic development.

Despite a low level of economic development itself, China acknowledged its obligation in this regard as early as 1964, when the Chinese delegate to the Economic Preparatory Meeting for the Second African-Asian Conference in Geneva stated:

We have done as much as our capacity permits to help other Afro-Asian countries develop their national economies and to strengthen mutual assistance and co-operation with them. But at present China's economic level is not high. What we have been able to do is limited. Having attained independence earlier and with such a great manpower, China logically ought to make more of a contribution to the struggle of Afro-Asian peoples for winning and safeguarding national independence. What we have done so far falls ¹⁶ short of what we should have done. But we are sincere.

Since its admission to the UN in late 1971, the PRC has on numerous occasions asserted that "China's economic

¹⁶Peking Review, No. 26, June 26, 1964, cited by Milton Kovner, "Communist China's Foreign Aid to Less Developed Countries", in An Economic Profile of Mainland China, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1967), p. 613.

development has not yet reached a high level. Like the overwhelming majority of Asian, African and Latin American countries, China is a developing country and belongs to the Third World."¹⁷ Nevertheless, the Chinese have continued to reiterate their moral commitment to aid the developing countries and even increase their contributions:

China is a developing country. The Chinese people, who suffered long from imperialist oppression and exploitation, have profound sympathy for the people of the developing countries in their miseries and predicament.

.....
The just struggles of the people of all countries support each other. We, the Chinese people, are sincerely grateful to the peoples of the world and the friendly countries for their valuable support and assistance to our revolution and construction. China has also, to the best of her ability, provided some aid to the revolutionary people engaged in struggle and to friendly countries; this is our bounden internationalist duty. However, China's economy is still comparatively backward at present, and the support we give to the people of the world is mainly political and moral, while the material aid we can provide is yet scanty. We are determined to change this situation in which our ability falls short of our wish, and, with the advance of China's socialist construction, strive to make greater contributions to mankind.¹⁸

The Chinese realize that some types of aid are, of course, more effective promoters of humanitarian change than others; especially helpful are those that are based on the

¹⁷ Peking Review, No. 17, April 28, 1972, p. 13.
Excerpt of a speech by Chou Hua-min, head of the PRC delegation and Chinese Vice-Minister of Foreign Trade, at the plenary meeting of UNCTAD III on April 20, 1972.

¹⁸ Peking Review, No. 28, July 14, 1972, p. 16.
Excerpt of a speech by Wang Jun-sheng, Chinese representative, at the plenary meeting of the 53rd Session of the UN Economic and Social Council on July 6, 1972. Emphasis is mine.

real interests of the developing countries, divorced from the self-interest of donors. Accordingly, their position concerning the purpose of foreign aid is as follows:

We hold that all countries which are sincere in providing aid to others, including multilateral aid through the United Nations, should help the recipient countries and not exploit them. . . . The purpose of providing aid to other countries should be to help the recipient countries stand on their own feet and develop an independent national economy. They must not reduce the recipient countries to dependence and subordination in the name of "economic aid" and "international division of labour", let alone placing them under their control on the pretext of "aid".¹⁹

Furthermore, they profess that Chinese foreign aid complies with the following set of principles (which is sometimes regarded as a model for the aid policies of all donor countries):

1. The Chinese Government always bases itself on the principle of equality and mutual benefit in providing aid to other countries. It never regards such aid as a kind of unilateral alms but as something mutual.

2. In providing aid to other countries, the Chinese Government strictly respects the sovereignty of the recipient countries, and never attaches any conditions or asks for any privileges.

3. China provides economic aid in the form of interest-free or low-interest loans and extends the time limit for the repayment when necessary so as to lighten the burden of the recipient countries as far as possible.

4. In providing aid to other countries, the purpose of the Chinese Government is not to make the recipient countries dependent on China but to help them embark step by step on the road of self-reliance and independent economic development.

¹⁹ Peking Review, No. 41, October 13, 1972, pp. 7-8. Excerpt of a speech by Chiao Kuan-hua, chairman of the PRC delegation, at the plenary meeting of the 27th Session of the UNGA on October 3, 1972.

5. The Chinese Government tries its best to help the recipient countries build projects which require less investment while yielding quicker results, so that the recipient governments may increase their income and accumulate capital.

6. The Chinese Government provides the best-quality equipment and material of its own manufacture at international market prices. If the equipment and material provided by the Chinese Government are not up to the agreed specifications and quality, the Chinese Government undertakes to replace them.

7. In giving any particular technical assistance, the Chinese Government will see to it that the personnel of the recipient country fully master such technique.

8. The experts dispatched by China to help in construction in the recipient countries will have the same standard of living as the experts of the recipient country. The Chinese experts are not allowed to make any special demands or enjoy any special amenities.²⁰

To completely separate the true from the false motives for Chinese aid would be a difficult, if not impossible, task. Thus, while the humanitarian interest should be accepted as a valid motive for Chinese aid and should not be underestimated, it is certainly not the whole case. One would be naive not to suspect statements that foreign aid is motivated entirely, or even mainly, by humanitarian sentiments. Self-serving motives, notably political and economic interests based on narrow nationalistic goals, have typically played a considerable

²⁰ Peking Review, No. 17, April 28, 1972, p. 15. Chou En-lai's "Eight Principles for China's Aid to Foreign Countries" first appeared in Peking Review, No. 34, August 21, 1964, p. 16.

role in the policies of most aid donors.²¹ Indeed, this practice is upheld by China in the first of the aforementioned "Eight Principles", that of "equality and mutual benefit".

b. The Political Motive

Chinese aid has been motivated largely by political interests. Foreign aid represents a valuable instrument of the PRC's overall foreign policy and appears to be the most effective tool available for expanding and consolidating its influence in recipient countries and for countering that of other major powers.

China's aid programme in other CPCs was originally designed to strengthen friendly regimes and to cement political relations. As Peking's hostility toward Moscow increased, however, the purpose of the programme shifted--to undermine Soviet influence by offering political and economic leverage to receptive communist governments. This objective underlies China's concentration on Eastern European countries which are inclined to pursue policies independent of the USSR. For example, the PRC has continued to aid Albania, has extended

²¹This is not to imply that such motives are necessarily detrimental to the recipient economies. In fact, Edwin Martin argues in the DAC's 1973 Review, pp. 27-28, that "the efficiency with which the money is used is commonly much more important than the reasons for which it is given." Moreover, "the impact of donor-oriented objectives on the purposes for which aid is given and the irrelevant strings sometimes attached to it, may or may not reduce materially the contribution to development of the resources transferred."

aid to Romania for the first time, and has attempted to improve economic relations with "revisionist" Yugoslavia. In addition, China's new aid commitments to North Korea and North Vietnam in the 1970s were probably designed to strengthen Chinese influence relative to that of the Soviet Union.

In the LDCs, Chinese aid has been extended in order to establish and expand Chinese influence, to purvey Chinese communist ideology and support radical regimes, and to undermine Western and (since 1961) Soviet influence in the area.²² This policy seems to have been at least partially successful: foreign aid has enabled China to establish a strong presence in many Afro-Asian countries and to broaden the base of communications between Peking and the LDCs.

Sino-Soviet competition has played a major role in the political basis for Chinese aid. In the 1950s, the PRC and the USSR appeared to be pursuing parallel aims in the LDCs. The early 1960s witnessed the surfacing of the Sino-Soviet conflict and the struggle of the two countries for influence in the less developed world. The issue at that time centred on which of the two most powerful communist nations--the USSR or the PRC--would carry the mantle of leadership of

²²Bauer, Dissent on Development, p. 128, notes that "with few exceptions foreign aid promotes centralized and closely controlled economies." According to this argument, therefore, foreign aid (regardless of the economic system or political views of the donor) tends to favour and strengthen governments which lean toward the Sino-Soviet bloc.

the "liberation movement".

Much of the dispute tended to revolve around the proper communist strategy to be pursued in the LDCs because the Chinese, for reasons of geography, racial affinity, and revolutionary appeal, regarded the area as one in which they could most effectively challenge Soviet authority. China singled out Soviet foreign aid as a particularly vulnerable target of overall Soviet strategy in the area, insisting that the national liberation struggle still finds its "most concentrated expression" in armed struggle and "in no case can it be said that national independence and social progress are due solely to the economic aid they received from socialist countries and not mainly to the revolutionary struggles of their own peoples."²³ Indeed, the Chinese maintained that indiscriminate aid to noncommunist leaders in such countries would only serve to strengthen such regimes and make necessary a more protracted armed struggle for communist elements to seize control.

Despite such criticisms of foreign aid in general, Chinese aid commitments to the LDCs soared as the struggle between the two countries intensified: extensions climbed from only two million dollars in 1959 to more than 380 million

²³Peking Review, No. 43, October 25, 1963, cited by Kovner, "China's Foreign Aid", p. 616.

dollars in 1964. Thus, Chinese theoretical objections to Soviet foreign aid were reduced to the more practical question of priorities, i.e. which regimes were to be aided and to what degree rather than an issue of whether or not to extend aid. Accordingly, the geographic focus of Chinese aid shifted toward the Black African countries. Only in this region could China possibly compete with Soviet aid: first, the aid requirements--in terms of both technology and costs--of most of these countries could easily be met by China; and second, the USSR's primary LDC interests were elsewhere and the Soviets were not likely to press too hard in Africa to outdo the Chinese. A large share of Chinese aid also flowed to Asian and Middle Eastern countries, but not on a scale to rival Soviet aid.

The surge in Chinese aid commitments was accompanied by polemical exchanges between Moscow and Peking, as each sought to demean the other's aid programme. During his visit to Africa early in 1964, Premier Chou En-lai, in an effort to exploit the latent suspicions of many Soviet aid recipients, advanced the ideas that the USSR was ready to sell out Africa's interests in order to achieve accommodation with the West, that Soviet aid was costly, and that aid from the Soviet Union had dangerous strings attached to it. In fact, it was on this occasion that Chou, seeking to make the most of China's limited capacity to provide economic assistance and to contrast unfavourably the Soviet (as well as the Western) aid

effort, enunciated his "Eight Principles for China's Aid to Foreign Countries" (see p. 223 above). In particular, the references to Chinese respect for the sovereignty of aid recipients, the absence of imposed conditions, interest-free or low-interest loans, concessions on repayments, quality equipment at world market prices, and the exemplary conduct of Chinese technicians were meant to draw invidious comparisons with Soviet foreign aid policy and to undermine the attraction of the Soviet foreign aid programme.

The Chinese waged an unremitting campaign to discredit the quality and intent of Soviet foreign aid. In June, 1964 for instance, the Chinese delegate to the Second Asian Economic Seminar in Pyongyang, North Korea, attended by representatives from 34 Afro-Asian nations, attacked the motivation of Soviet aid by cautioning that, "not unlike the 'imperialists' of the West, modern revisionists also talk about 'economic co-operation and economic aid'." However, "they have no sincere desire to help the Asian and African countries develop their independent national economies." In dealing with the Asian and African countries, the Chinese delegate warned: "they sometimes provide the machinery while holding back the key units and parts; sometimes they provide equipment while withholding technical knowledge, trying all they can to make the African and Asian countries dependent on them." In an obvious allusion to China's own experience with

Soviet aid, he added that "they have even gone so far as to cancel aid, withdraw experts, and tear up contracts as a means of applying pressure."²⁴

Under the impact of the withdrawal of Soviet aid in 1960, which admittedly "inflicted incalculable difficulties and losses on China's economy", the Chinese made a virtue out of necessity and enshrined the principle of self-reliance as a cardinal tenet of economic development and political independence. While not foreclosing aid "given on the basis of proletarian internationalism, aid coming from socialist countries which uphold Marxist-Leninism", and aid from other "revolutionary people", the Chinese exhorted that "life has taught us the lesson that it is important to discern the real nature of foreign aid before accepting it. The foreign aid provided by imperialism and old and new colonialism is nothing but an instrument of aggression."²⁵

The Soviets, for their part, attacked the most vulnerable area of the Chinese aid programme, viz. its small size and poor implementation record. They asserted that China, which itself only recently started on the road to industrialization, "was hardly in a position to render effective assistance to developing countries", and noted that "the volume of aid given by the Chinese People's Republic

²⁴Peking Review, No. 27, July 3, 1964, ibid., p. 618.

²⁵Peking Review, No. 25, June 18, 1965, ibid.

amounted to only eight per cent of the aid granted to young nationalist states by the Soviet Union and the other socialist CMEA countries." Moreover, they alleged that China's "Eight Principles" serve only one purpose--"that of discrediting the disinterested assistance of the Soviet Union and of other socialist countries to young national states." Citing the Chinese aid programmes in Burma, Cambodia, Guinea, Indonesia, and Nepal, the Soviets claimed that the Chinese were lagging in the implementation of their aid pledges, and that Chinese plant and equipment were of a "low technical level" and failed to meet world standards. They concluded that, in spite of the "flowery declaration of the Chinese leaders about aid to new states, such people will judge their real friends not by their words but by their deeds."²⁶

The Soviets directed their strongest criticisms against the Chinese doctrine of self-reliance because they interpreted it as a challenge to their policies in Eastern Europe as well as in the LDCs. The USSR had long sought to invest the Council for Mutual Economic Assistance (CMEA) with new dimension and greater depth and to co-ordinate socialist economies not only on the level of trade but, through meshing of long-term development plans and specialization assignments, at the level of output as well. Therefore, Moscow opposed

²⁶Izvestiya, July 12, 1964, ibid., pp. 618-619.

the Chinese doctrine because "it conceals the concept of creating self-sufficient national economies for which the economic contacts with other countries are restricted to trade only" and because it "cannot be regarded otherwise than as an attempt to undermine the unity of the communist commonwealth."²⁷ As for the LDCs, such a policy hides "an attempt to subordinate the economies of those countries to Peking by way of isolating them from the USSR and other socialist countries."²⁸

While the upswing in Chinese extensions and the polemics between the two countries left the appearance of competition, in reality, the relatively meagre resources available to China for foreign aid purposes prevented it from engaging in any meaningful economic aid competition. As an illustration, the USSR extended more than one billion dollars of aid to the LDCs in 1961-1964, compared to less than 600 million dollars of Chinese aid.²⁹ Moreover, the largest part of Soviet aid went to countries already receiving sizable amounts of aid

²⁷ Pravda, July 14, 1963, ibid., p. 619.

²⁸ Ekonomicheskaya Gazeta, No. 34, August 22, 1964, ibid., p. 620.

²⁹ The difference is even more accentuated if the years previous to 1961 are also included. From 1954 to 1964, the USSR extended over four billion dollars of aid to the LDCs, compared to less than 800 million dollars of Chinese aid during the same period. For details, see Tansky, "Chinese Foreign Aid", p. 373; and USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1972, Research Study RECS-10, June 15, 1973, Appendix, Tables 2 and 4.

from the Soviet Union--countries which were not likely to be swayed by Chinese offers. The only region where the Chinese offered any real challenge to Soviet influence was in Africa. Only about 325 million dollars of total Soviet extensions in 1961-1964 went to African countries, and more than 70 per cent of that was allocated to Algeria as part of Moscow's overall Arab policy. In comparison, China extended almost 230 million dollars of aid to Africa during the period. Thus, while the Chinese aid programme may have affected the timing of some Soviet extensions, it did not significantly affect the volume or geographic distribution of Soviet aid.

The Chinese aid programme eventually encountered various political setbacks during the late 1960s: the general receptivity to Chinese aid in many LDCs had begun to diminish early in 1965; a series of military coups ushered in a number of regimes less inclined to extensive relations with communist countries; and two major aid clients--Burma and Indonesia--broke relations with the PRC, largely over the question of subversive activities. African countries, in particular, began to attack Chinese activities, many having become concerned over frequent references from Peking to the "excellent revolutionary prospects" in Africa as well as Chinese support

for dissident African movements.³⁰ Several countries in Africa (e.g. Central African Republic, Dahomey, and Ghana) severed relations with the PRC and others expelled Chinese personnel for dealing with opposition elements. The onset of the Cultural Revolution damaged political relations with many countries and accelerated the decline in China's aid programme as the PRC became preoccupied with internal affairs. China did not initiate any major policy moves in the LDCs during this period and merely attempted to maintain existing footholds. However, the close political relations with Pakistan and Tanzania developed during these years and ongoing aid programmes continued.

After the disruptions of the Cultural Revolution, China reappeared on the international scene in 1970 with renewed determination to assert itself as a major world power and to gain wider international acceptance by becoming a responsible spokesman for the Third World. Thus, China's aid programme in the 1970s has featured not only a sharp increase in the volume of new commitments, but also a moderation in

³⁰For example, at the end of his 10-country tour of Africa in late 1963 and early 1964, Premier Chou made the following remark in Somalia: "Revolutionary prospects are excellent throughout the African continent" (Clyde Sanger, "Chinese Aid Programme: Poor Friends in the Same Boat", Cooperation Canada, No. 8, May-June, 1973, p. 5). Chinese arms shipments turned up in several parts of Africa in the early 1960s, including Congo (Brazzaville), Ivory Coast, and Kenya.

tactics as the PRC attempted to remove the subversive taint which many countries had come to associate with Chinese aid. Ideological rhetoric gave way to the pragmatic consideration of expanding Chinese influence. The Chinese realized that the tactics of the early 1960s undermined their efforts to establish a long-term presence in aid-recipient countries and that it is difficult to have normal political relations while rendering aid to dissident groups seeking to overthrow the host government. This does not mean that the Chinese completely abandoned support for liberation movements. Instead, they concentrated on giving assistance to those organizations popular among Afro-Asian countries, such as the liberation movements fighting the white regimes in southern Africa (e.g. through Tanzania a good deal of Chinese assistance went to freedom fighters in Mozambique, Rhodesia, and Angola). Elsewhere, however, state-to-state relations took precedence, as evidenced by China's neutral attitude toward certain dissident activities (such as in Ethiopia and Sri Lanka). The PRC also made compromises with monarchies and military juntas; courted such non-revolutionary regimes as those in Ethiopia, Iran, Kuwait, and Turkey; and even warmed to the Nimeri regime in Sudan, which decimated the Sudanese communists in 1971.

Two other motives also explain China's readiness to sacrifice ideological consistency for the sake of political

advantage. First, since 1964 there was seen a chance of establishing wider diplomatic relations and thereby picking up the votes of several African states in the UNGA on the resolution to hand over the China seat to Peking. In 1964 only seven sub-Saharan African states recognized Peking, while 15 recognized Taipei, and the 1963 Assembly defeated the "Albanian resolution" by 47 votes to 59. By October 1971 many African states had switched their allegiance, and Peking won the seat on a vote of 76 to 35.³¹ Second, China wished to break out of the military containment imposed by the USSR and the US. Just as it was strategically important to the Soviet leaders to have their fleets break out into the Mediterranean and, through it, to the other oceans, so it was important to the Chinese leaders to open the seas to the naval ships they were building. Thus, the Chinese aid programme favoured coastal states with good harbours, where Chinese ships could berth.

As for the Sino-Soviet dispute, the central issue, at least for the Chinese, has shifted to winning allies and counterweights because the PRC now considers the USSR as a real threat to China's security. Peking's renewed efforts to gain respectability through its foreign aid programme have again elicited a sharp response from Moscow. The Soviets attacked Chinese aid with claims that "the effectiveness of

³¹Sanger, "Chinese Aid Programme", p. 9.

this aid is, in practice, very low" and that its technical level is poor because the "present technical level of China's own industry is such that . . . it is hardly in a position to render highly qualified assistance." In a new variation, Moscow claimed that "the main purpose of Chinese credits is to ensure the widening of exports of Chinese goods to the Asian and African markets."³² One Soviet journal stated that "Peking has been trying to make its policy look respectable. Interference in domestic affairs has been covered up carefully with smiling Yuan diplomacy."³³ The Chinese replied that "the Soviet revisionists, under the signboard of 'economic aid' and 'international division of labour', and using 'aid' as bait, interfere in the internal affairs of other countries and get the economies of such countries in their grip and plunder their wealth."³⁴

c. The Economic Motive

In addition to the humanitarian and political motives, economic self-interest has been a powerful influence on Chinese foreign aid. China's prosperity depends in large

³²Radio Moscow, June 26, 1971, cited by Tansky, "Chinese Foreign Aid", p. 375.

³³Novaya Vremya, No. 30, July 23, 1971, ibid.

³⁴Peking Review, No. 1, January 5, 1973, p. 19.

measure on a growing exchange of goods with other countries in accordance with the principle of comparative advantage. In particular, China must import from the DMCs the high technology products which it desperately needs for the continuation of its industrial expansion. However, this seems only possible if the PRC can earn the foreign exchange to purchase these goods by maintaining its large trade surplus with the LDCs. This, in turn, argues for strong growth of consumer demand in the developing countries and explains China's vested interest in their economic development.

There is, of course, no long-term guarantee that aid recipients will trade with the donor country. Nevertheless, Chinese aid has a number of trade-generating effects. First, there is the obvious fact that a large portion of China's aid programme will eventually be reflected in Chinese exports to the recipient countries as aid commitments are disbursed. This is especially true in China's case because Chinese aid is almost exclusively tied to the procurement of goods and services in China.

Second, some of China's aid agreements contain an extra stimulus to Chinese exports in their provisions to cover the local costs of aid projects. As a case in point, the Tan-Zam Railroad agreement stipulated that both Tanzania and Zambia must import on credit at least 20 million dollars worth of Chinese goods each year (up to a maximum for both

countries of about 200 million dollars).³⁵ The proceeds of the sale in Tanzania and Zambia of these goods go toward the local costs of the project.

Third, Chinese aid may result in an expansion of Chinese exports in excess of those directly aid financed. In other words, Chinese exports to the LDCs would increase by more than the amount of the original aid disbursement.³⁶ For example, aid-financed exports may be of long-run commercial benefit by establishing a foothold in markets which the Chinese might not otherwise have been able to penetrate, by reducing buyer resistance to Chinese products, and by creating a market for replacements and spare parts.

In addition to boosting exports, China's imports from the developing countries have been stimulated by aid agreements which specify repayment in goods, as opposed to domestic or convertible currency. In the case of the Soviet Union, for example, rising economic aid repayments have been an important impetus to the growth of that country's imports of manufactured goods from the LDCs, many of them produced in plants

³⁵"China's Trade with Africa", Radio Liberty Dispatch, September 7, 1972, p. 6.

³⁶It is, of course, somewhat more complicated than this because there are other factors which work in the opposite direction, such as switching (i.e. when the recipient would have purchased some of the aid-financed exports from China in any case) and the import content of aid-financed exports. For further details, see Chapter V, pp. 282-288 below.

built with Soviet assistance. In contrast, a large proportion of repayments of Chinese aid seem to have been in the form of raw materials, e.g. chromium (from Albania), coffee (from Burundi and Ethiopia), copper (from Albania, Chile, Peru, and Zambia), cotton (from Burundi, Egypt, Kenya, Pakistan, Sudan, and Uganda), rubber (from Indonesia and Sri Lanka), and sugar (from Cuba). In some cases (e.g. copper), the price has been based on the world market price for the commodity. On other occasions (e.g. cotton), however, the Chinese have received the goods at a fixed price irrespective of market fluctuations.

Furthermore, the PRC has used its aid programme to build up trading links with the developing countries. Trade (or barter) agreements are often signed at the same time or shortly after the signing of aid agreements,³⁷ and the Chinese see such agreements as being an integral, possibly major, part of their "mutual" economic assistance. As of 1972, China had trade agreements with 17 African nations, viz. Algeria, Burundi, Congo (Brazzaville), Equatorial Guinea, Ethiopia, Guinea, Kenya, Mali, Mauritania, Morocco, Nigeria, Sierra Leone, Somalia, Sudan, Tanzania, Tunisia, and Zambia.³⁸ All but two of them--Morocco and Nigeria--had also signed aid agreements with the PRC. The barter arrangements with Morocco

³⁷E.g. the trade and aid agreements with Ethiopia were signed simultaneously in October, 1971.

³⁸"China's Trade with Africa", p. 1.

and Sudan, for example, involve an exchange of Moroccan phosphates and sardines for Chinese green tea, and Sudanese cotton for Chinese sugar.

China has also concluded trade agreements with a number of its aid recipients in other regions, such as Sri Lanka in Asia, Egypt in the Middle East, Peru in Latin America, and Romania in Eastern Europe. The rubber-rice agreement between the PRC and Sri Lanka has been maintained since 1952 and has survived two changes of government in Sri Lanka. Under this barter arrangement, Sri Lanka exchanges its rubber at favourable rates for rice which is provided by China at below world market prices. The value of trade under the agreement with Egypt (a major Soviet aid beneficiary) declined in 1968-1969 after China withdrew its 1967 aid commitment because of political dissension associated with the Sino-Soviet dispute. Subsequently, China made attempts to revive trade with Egypt, and protocols to the Sino-Egyptian trade agreement were signed in 1971 and 1972. The 1971 trade agreement with Peru involves the bartering of Peruvian minerals (copper, lead, and zinc) and fishmeal for Chinese machinery, raw silk, chemicals, domestic appliances, and office equipment. Following an aid agreement in November 1970, China signed a trade agreement for 1972-1975 with Romania in February 1971--the first long-term trade agreement signed with an Eastern European country since the 1950s. Another loan agreement was concluded in October 1971.

China's economic relationship with the LDCs is a profitable one, at least from the PRC's standpoint. Since 1960, China's exports to the LDCs have grown at an annual average rate of 14 per cent, compared to nine per cent growth for total Chinese exports and 12 per cent for China's imports from the LDCs. More importantly, the less developed world is the only area where the PRC consistently enjoys a substantial trade surplus.

Nevertheless, there is little indication that China's aid programme has been a major determinant of the rapid growth in aggregate exports to the LDCs. First, some of China's largest export markets in the LDCs have not been recipients of Chinese aid, suggesting that other factors such as import demand and price competitiveness have had a much stronger influence on the movement of Chinese exports. For example, Hong Kong, Macao, Malaysia, and Singapore have not received any Chinese aid; yet together they purchased more than one-half of China's exports to the LDCs in 1973. Second, only about one-half of China's aid commitments to the LDCs have been actually disbursed.³⁹ Consequently, a large portion of total aid commitments will not be reflected in exports until years later when they are eventually disbursed; another portion may never be disbursed and therefore will have no

³⁹For a discussion of Chinese aid disbursements, see pp. 264-272 below.

effect on exports. Third, it is estimated that only 10-15 per cent of China's exports to the LDCs have been aid-financed.⁴⁰

On the other hand, an examination of the figures on Chinese trade with selected aid recipients (see Table 28) suggests that China's aid programme may have had a significant impact on trade with individual countries. For example, Chinese exports to a number of African countries have expanded rapidly following the signing of aid agreements in the 1970s. In particular, the Tan-Zam Railroad project has helped to produce an increase in Sino-Tanzanian and Sino-Zambian trade. Chinese exports to Tanzania increased from 11 million dollars in 1969 to 100 million dollars in 1973, and exports to Zambia from one million dollars in 1969 to 15 million dollars in 1973. Following its first aid commitments to Sudan in 1970-1971, China's exports to that country more than doubled to 35 million dollars in 1973.

Furthermore, the PRC's on-going aid programmes in Asian countries such as Pakistan and Sri Lanka has kept trade with these countries at relatively high levels. Pakistan, for instance, is not only China's largest aid recipient among the LDCs, but is also one of its main LDC trading partners. In 1973, the Chinese sold 49 million dollars worth of goods to Pakistan, and purchased 19 million

⁴⁰ Calculated by expressing gross disbursements of Chinese aid (estimated in Table 29, p. 268 below) as a proportion of Chinese exports to the LDCs (see Table 16, p. 170 above).

TABLE 28

CHINA'S TRADE WITH SELECTED AID RECIPIENTS, 1966-1973^a
(Millions of US Dollars)

Country	1966		1967		1968		1969		1970		1971		1972		1973	
	Ex-ports	Im-ports	Ex-ports	Im-ports	Ex-ports	Im-ports	Ex-ports	Im-ports	Ex-ports	Im-ports	Ex-ports	Im-ports	Ex-ports	Im-ports	Ex-ports	Im-ports
<u>Africa</u>																
Algeria	7.0	3.2	6.3	3.6	6.8	9.3	10.8	9.0	12.4	9.0	5.2	10.4	13.8	10.5	15.0	12.0
Cameroon	0.3	--	0.9	--	0.6	--	1.3	--	1.6	0.1	2.1	neg.	2.0	neg.	6.1	1.7
Ethiopia	2.6	0.5	2.2	1.0	2.6	0.5	2.2	0.5	2.6	0.7	2.2	0.6	3.0	5.1	3.9	9.5
Ghana	7.5	5.2	0.8	0.7	1.6	0.6	4.3	1.1	6.7	2.4	5.0	1.8	6.0	3.1	10.6	9.3
Kenya	5.4	2.6	2.5	3.1	4.5	1.2	3.2	1.3	3.4	1.7	4.0	2.5	3.4	4.5	4.6	8.7
Malagasy R.	2.9	--	--	--	--	--	--	--	--	--	--	17.4	neg.	--	10.1	0.4
Mali	10.0	--	11.6	--	9.1	1.1	3.1	--	3.2	neg.	0.8	--	4.0	neg.	5.1	neg.
Mauritius	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.6	--	5.2	--
Sierra Leone	1.5	--	1.9	--	2.3	--	4.2	--	2.8	--	--	--	4.0	0.3	5.8	0.4
Somalia	--	--	--	--	--	--	1.1	--	--	0.5	0.9	0.6	2.5	0.4	18.8	0.9
Sudan	10.5	11.2	17.1	7.6	17.2	13.9	14.0	18.5	11.6	17.2	23.2	31.7	26.0	41.6	35.2	65.4
Tanzania	10.4	9.5	8.7	7.7	12.1	7.7	11.1	10.9	37.1	8.2	84.1	11.8	71.1	19.0	100.2	14.0
Tunisia	1.7	0.8	1.2	0.5	0.5	0.8	neg.	--	0.2	--	0.3	0.3	0.4	0.9	2.3	1.3
Zambia	0.2	0.6	0.7	8.8	1.5	2.4	1.2	13.8	1.5	13.8	3.9	32.1	15.2	17.8	15.0	24.8
<u>Asia & Middle East</u>																
Afghanistan	--	--	5.6	0.4	--	--	2.4	--	4.0	1.0	3.0	1.2	3.0	1.0	6.1	3.4
Burma	12.7	17.1	14.0	8.2	0.8	--	--	--	1.4	--	12.6	1.6	13.4	9.6	15.7	1.0
Cambodia	18.7	5.7	8.7	6.6	6.7	9.0	4.6	--	8.1	3.7	1.2	--	n.a.	n.a.	n.a.	n.a.
Egypt	40.3	32.5	23.3	18.9	20.4	16.5	12.9	14.0	15.3	17.7	15.3	23.1	25.8	25.3	33.9	24.1
Indonesia	51.7	9.5	47.3	9.9	43.0	6.0	39.0	5.0	40.5	5.0	31.2	5.0	38.2	--	45.2	n.a.
Iraq	21.2	6.6	17.6	5.3	17.2	5.4	19.9	8.0	20.0	8.0	19.6	3.0	19.8	3.0	33.8	3.2
Pakistan	28.5	30.2	33.7	34.7	29.6	25.5	26.4	28.9	27.8	39.3	35.0	30.2	24.0	17.4	48.5	19.0
Sri Lanka	45.6	37.2	38.4	31.5	41.2	32.7	47.4	40.4	48.6	42.3	27.1	30.3	15.5	26.0	31.3	37.4
Syria	15.7	19.4	13.7	7.8	12.0	7.6	17.0	11.5	9.8	15.9	5.0	13.0	16.1	16.2	3.8	28.1
North Yemen	--	--	--	--	--	--	--	--	3.5	--	1.0	0.2	3.2	1.6	4.8	1.3
South Yemen	1.4	neg.	1.9	--	2.7	--	4.6	0.3	5.0	0.5	5.0	neg.	3.8	4.0	3.3	4.0
<u>Latin America</u>																
Chile	0.2	1.2	0.2	0.4	0.4	--	0.2	neg.	0.5	--	1.0	16.0	8.0	70.0	16.3	93.7
Peru	neg.	neg.	neg.	--	4.2	neg.	4.1	neg.	0.2	neg.	0.4	23.2	0.3	42.7	0.6	62.2

TABLE 28--CONTINUED

Sources: USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1974, Report No. 298, January 27, 1976, Appendix, Table 12; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1973, Research Study INR RS-20, October 10, 1974, Appendix, Table 11; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1972, Research Study RECS-10, June 15, 1973, Appendix, Table 12; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1971, Research Study RECS-3, May 15, 1972, Table 10, pp. 24-28; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1970, Research Study RECS-15, September 22, 1971, Table 11, pp. 29-34; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1969, Research Study RECS-5, July 9, 1970, Table 7, pp. 19-22; USDS, Director of Intelligence and Research, Communist Governments and Developing Nations: Aid and Trade in 1968, Research Memorandum RSE-65, September 5, 1969, Tables 6-7, pp. 14-21.

^aData are based on official statistics of China's trading partners and have not been adjusted to show China's exports f.o.b. and China's imports c.i.f. Therefore, exports include ocean freight and insurance costs whereas imports exclude them.

dollars in return. The close economic relations between China and Sri Lanka have developed over a number of years: the PRC has extended aid to Sri Lanka on several occasions since 1957 and the associated rubber-rice barter arrangement between the two countries has continued since 1952. After dropping to a low of 42 million dollars in 1972, trade between China and Sri Lanka increased to almost 70 million dollars in 1973, with Chinese exports of 31 million dollars and Chinese imports of 37 million dollars.

In Latin America, China's trade with Chile and Peru expanded rapidly following the signing of aid and trade agreements with these countries in 1971-1972. For example, Sino-Chilean trade increased from less than one million dollars in 1970 to 110 million dollars in 1973; and trade with Peru rose from less than one million dollars in 1970 to 63 million dollars in 1973. Chinese purchases of copper and other non-ferrous metals accounted for a large part of this trade.

In addition, the fluctuations in Chinese trade with several other LDCs--e.g. Burma, Cambodia, Egypt, and Indonesia--can be traced at least partly to the interruption of China's aid programmes in those countries due to a deterioration of their political relations with the PRC in the 1960s. For instance, serious anti-Chinese rioting in Burma during 1967 and a concurrent deterioration in Sino-Burmese political relations led to the suspension of the 1961 economic assistance agreement between Burma and the PRC. As a consequence,

trade between the two countries dwindled to nothing in 1969, compared to over 60 million dollars in the early 1960s. In 1971, China reactivated the unused portion of the aid commitment originally pledged 10 years earlier, and by 1973 Sino-Burmese trade had rebounded to 17 million dollars. In Cambodia, the dismissal of (pro-Chinese) Prince Sihanouk as Chief of State in 1970 and, afterward, the election of General Lon Nol as President resulted in the termination of China's aid projects in that country. Thus, the volume of Chinese trade with Cambodia amounted to only one million dollars in 1971, compared to 24 million dollars in 1966.

By the end of 1967, Egypt was one of China's most important aid recipients, having received over 100 million dollars of economic aid from the PRC, including 21 million dollars in the wake of the Arab-Israeli war in June, 1967. Later, China decided to withdraw its aid pledges because of dissatisfaction with Egyptian policies, in particular because of Egypt's close economic and political relations with the "revisionist" USSR and its acceptance of aid from that country. Consequently, Chinese trade with Egypt declined from a peak of 73 million dollars in 1966 to 27 million dollars in 1969. Following the signing of a trade protocol in 1971, Sino-Egyptian trade recovered to 58 million dollars in 1973. Likewise, China cancelled its aid programme in Indonesia after the attempt in 1965 by then President Sukarno and the Indonesian Communist Party to purge the top army leadership, and the subsequent transfer of power to General Suharto. Since

that time, Chinese trade with Indonesia has gradually decreased from over 100 million dollars in the mid-1960s to less than 50 million dollars in the 1970s.

China's aid programme has also stimulated its trade with the developing centrally planned economies. In particular, Chinese trade with Albania and North Vietnam has been based on the PRC's economic assistance to these countries. For example, China's trade with the developing CPCs increased from only 250 million dollars in 1959 to 1,360 million dollars in 1974 (see Table 20, p. 181 above). This contrasts with a rapid decline in trade with the USSR and Eastern Europe. Thus, the developing CPCs increased their share of China's total trade with the CPCs from less than 10 per cent in 1959 to almost 60 per cent in 1974.

CHAPTER V

SUMMARY AND CONCLUSIONS:

CHINA'S AID EFFORT IN PERSPECTIVE

International development co-operation began to take shape on a large scale after the Second World War and intensified rapidly in the late 1950s. Today, it is producing a transfer of resources to the developing world in unprecedented amounts. The period also witnessed amazing progress in the Chinese economy and a remarkable list of achievements, including the maintenance of a sizable and growing foreign aid programme. These developments were examined in detail in Chapters I-IV; the main findings are summarized in Section 1 of this chapter. In order to place the PRC's aid effort in its proper perspective, Sections 2-3 estimate the actual burden of foreign aid on the Chinese economy and compare China's aid-giving performance to the performance of other major donors. Although China has extended over six billion dollars of economic assistance since the start of its aid programmes, the real cost of such aid is less than two-thirds of this amount. China is not one of the larger aid donors. Nevertheless, in relation to its aid-giving capacity, China's aid effort is better than that of the USSR and is not much behind the United States. Moreover, China's aid-giving performance improves if account is taken of its low per capita income.

Section 4 ends this thesis with a series of brief conclusions based on China's experience as an aid donor.

1. Summary

"China has stood up." This statement of Chairman Mao Tse-tung summarizes China's emergence in 1949 as a strong nation-state after a century of humiliation at the hands of foreign powers. On the eve of National Day, 1974, celebrating the 25th anniversary of the founding of the People's Republic, Premier Chou En-lai repeated Mao's words to describe China's amazing economic progress during the first quarter-century of the PRC's existence.

Since 1949, the Chinese Government has met with both success and failure in its effort to rebuild China into a modern industrial nation. The overriding goal in the economic sphere has been the expansion and modernization of China's economy in directions that bolster the country's international military and political strength. In pursuit of this goal, the PRC has actively pursued economic policies of rapid military-industrial expansion and emphasis on the agricultural sector. In addition, foreign trade policy has also been used to foster China's overall economic and political goals.

The vigorous drive to expand military-industrial capacity and output has been the most conspicuous of China's economic policies, and has absorbed the resources available to the economy over and above those needed for the minimum

maintenance of the population. This drive has for the most part been successful, although the authorities overextended the economy during the Leap Forward and, to a lesser extent, during the Cultural Revolution period. As a corollary to the vigorous expansion of military-industrial activities, the policy toward agriculture originally called for a slower expansion without the boost of large-scale investment. However, since 1962 the agricultural sector has been bolstered by a growing flow of fertilizer, irrigation equipment, and other inputs from the modern industrial sector.

Foreign trade is conducted as a state monopoly within the centrally planned economy and is an important ingredient in China's programme to transform itself into a modern industrial nation. Although economic gain is the primary concern, political considerations have also affected China's trade policy. The "lean to one side" policy of the 1950s and the subsequent reorientation of China's trade away from the CPCs following the Sino-Soviet rift were both influenced by ideology. Foreign trade has been used as a means of obtaining political recognition from the DMCs and of extending Chinese influence in the LDCs. Furthermore, a prevailing theme in China's trade policy is economic independence. The PRC resolutely avoids long-term foreign debt by scaling imports to the available volume of exports, and it attempts to become self-sufficient in key branches of industry and technology.

These policies have resulted in strong but erratic growth for the Chinese economy. Two periods of social and political upheaval--the Leap Forward of the late 1950s and the Cultural Revolution of the late 1960s--have temporarily thrown economic policy into disarray and have interrupted the momentum of economic growth. For the period as a whole, however, the long-term rate of economic growth has averaged six per cent per annum, or three per cent per capita. China's GNP in 1952, the year in which the economic machinery was restored to operation, amounted to 67 billion dollars, or 117 dollars per capita. By 1974, GNP had more than tripled to 223 billion dollars, and per capita income had risen to 243 dollars.

Moreover, because China's foreign trade is an integral part of the centrally planned economy, it has followed closely the trends in the Chinese economy. The pattern of Chinese trade growth reflected the heavy dependence on the USSR and Eastern Europe during the 1950s, the economic collapse following the Leap Forward and the withdrawal of Soviet aid in 1960, the economic recovery that occurred through 1966, the adverse effects of the Cultural Revolution in 1967-1968, and the subsequent revival of economic growth in the 1970s. Overall, Chinese trade increased from less than two billion dollars in 1952 to 13.7 billion dollars in 1974, representing an average annual growth rate of nine per cent.

In practical terms, however, China's economic progress since 1949 is better measured by the following list of remarkable achievements:

- (1) the feeding and clothing of over 900 million people;
- (2) the detonation of 18 nuclear devices (two of them underground);
- (3) the launching of six space satellites;
- (4) the production of sizable numbers of jet aircraft, submarines, tanks, missiles, and other sophisticated military hardware;
- (5) the achievement of self-sufficiency in petroleum;
- (6) the construction of huge industrial complexes in remote areas of the country;
- (7) the building of bridges across the Yangtze;
- (8) the extension of the rail network through some of the world's most difficult terrain;
- (9) the training and seasoning of a first-class industrial labour force;
- (10) the conducting of extensive scientific research in various fields of knowledge; and
- (11) the maintenance of a sizable and growing foreign aid programme.¹

¹Arthur G. Ashbrook, Jr., "China: Economic Policy and Economic Results, 1949-71", in People's Republic of China: An Economic Assessment, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1972), p. 6; "Chronology: Events in the People's Republic of China, October 1975", Current Scene, Vol. XIII, No. 12, December, 1975, p. 27; The Citizen (Ottawa), October 27, 1975, p. 1; The Citizen (Ottawa), January 12, 1976, p. 8; The Citizen (Ottawa), January 26, 1976, p. 12; The Citizen (Ottawa), August 31, 1976, p. 68; The Globe and Mail (Toronto), January 26, 1976, p. 12.

Perhaps the most laudable of the above accomplishments, and the one which has formed the subject matter of this thesis, is the last one--the extension of over six billion dollars of foreign aid. The PRC began extending aid in the early 1950s at a time when China was itself still receiving economic assistance from the USSR and when the aid programmes of many other donors were still in the embryonic stages. Indeed, the international effort to reduce the gap between rich and poor countries, which began to take shape after the Second World War, intensified rapidly in the late 1950s. Today, it is producing a transfer of resources from the developed to the developing countries on a scale unprecedented in the history of the world.

The promises by the majority of the developed countries to attempt to attain certain aid "targets" have highlighted the international aid effort. The most publicized of these targets--that each developed country provide financial resource transfers to the developing countries equivalent to at least one per cent of its GNP--was introduced in 1960 as part of the strategy for the UN's First Development Decade. Although it was a completely arbitrary goal, without assessment of the needs and requirements of developing countries or of the possibility of implementation in developed countries, the major aid donors accepted the one per cent goal in principle and signified their intentions of making the best possible efforts to comply with the recommendation. Further-

more, the goals established by the UN in 1970 for the Second Development Decade included a more meaningful aid target; namely, that of providing net ODA to developing countries in an amount equivalent to 0.7 per cent of GNP.

The promises of good deeds were not limited to the aid field. Many developed countries also pledged to make their domestic markets more easily accessible to products from the developing countries. Despite some backsliding in recent years, the trade policies of the past 25 years have been characterized in general by a strong liberalizing trend. Although the main impact of this trend was felt by the developed countries, the liberalizing forces did exert some influence on LDC exports. Those with the greatest potential effect on LDC trade were the implementation of the Generalized System of Preferences by the major developed countries and the general reduction of tariffs and other trade barriers resulting from the various "rounds" of GATT trade negotiations. Moreover, the ability of the LDCs to penetrate developed country markets in the years to come will depend to a great extent on the result of the multilateral trade negotiations which are currently taking place in Geneva under the auspices of the GATT.

Ironically, the international aid effort has become better known for its promises than for its actual results. The performance of the DMCs in terms of the aid targets has

not been encouraging; they have hardly been met consistently by any country. Nevertheless, the total net flow of financial resources from the DMCs to the LDCs has been steadily increasing in dollar terms, from 6.3 billion dollars in 1956 to 27.6 billion dollars in 1974, representing an average increase of about nine per cent a year at current prices. ODA accounted for about one-half of this flow and also increased over the period, but at a slower rate (seven per cent), from 3.3 billion dollars in 1956 to 11.3 billion dollars in 1974. Moreover, the period witnessed a notable spread in the extent of official involvement in the provision of development assistance: in 1960 almost 90 per cent of ODA came from only four countries (the United States, France, United Kingdom, and West Germany) which by 1974 accounted for less than two-thirds of the total.

The CPCs have not even accepted the existing aid targets. However, aid commitments from the CPCs to the LDCs have increased substantially from an annual average of 548 million dollars during 1954-1964 to 1.3 billion dollars in 1974. The annual level of new commitments fluctuated considerably, but averaged a five per cent annual increase between 1965 and 1974. The aid flow was concentrated in a relatively small number of countries: only two countries (the USSR and China) accounted for over 70 per cent of the aid extended during 1954-1974. Furthermore, available information suggests that actual disbursements of aid have

also been increasing. Gross disbursements of aid from the USSR and China to the LDCs have accounted for approximately one-half of total aid committed since 1954.

Despite the strong liberalizing forces which were evident during the past 25 years, the developed countries continued to impose restrictions on their trade with the LDCs. The last quarter-century was a period of rapid and widespread growth in world trade, with exports increasing at an average annual rate of $11\frac{1}{2}$ per cent. However, the most dynamic component of the trade was enjoyed by the developed countries. The exports of the DMCs and the CPCs increased at average annual rates of 12 per cent and $11\frac{1}{2}$ per cent respectively, compared to only 11 per cent for the LDCs. As a result, the LDC share of total world exports decreased from 31 per cent in 1950 to 27 per cent in 1974.

It is obvious from the above that China does not stand alone in the world as a provider of aid to the developing countries. Indeed, as will be shown later in this chapter, the PRC is by no means one of the largest aid donors. Countries such as the United States, France, West Germany, and the USSR are, in purely quantitative terms, much more important contributors than China. However, China's aid programme is unique for several reasons, but particularly because the PRC is in many ways still a developing country and has used its development experience to increase the effectiveness of its aid programme.

From the start of its economic assistance programme in the LDCs in 1956 until the end of 1974, China committed approximately 3.5 billion dollars of aid to 47 countries. The volume of aid, not unlike the Chinese economy as a whole, grew erratically over the years; over two-thirds of total extensions were made available during 1970-1974. In the initial phase up to 1960, when the PRC was still a recipient of Soviet aid, commitments of Chinese aid averaged about 35 million dollars annually. The volume expanded rapidly in the first half of the 1960s, reaching an annual average of almost 135 million dollars, as the Chinese economy recovered from the disastrous effects of the Leap Forward era and as many new African states achieved independence and became receptive to Peking's overtures. Chinese aid declined sharply in the latter part of the decade as part of the PRC's diplomatic reversals during the Cultural Revolution, and averaged less than 60 million dollars annually. However, the 1970s witnessed a new outward-looking foreign policy for China and a tremendous increase in the number of China's economic aid agreements and in the amounts involved. Accordingly, the volume of Chinese aid increased from a negligible amount in 1969 to about 490 million dollars a year during 1970-1974.

For the period as a whole, the geographic distribution of China's economic aid to the LDCs has favoured Africa.

African nations comprise over three-fifths of the 47 LDC recipients of Chinese aid and have received more than one-half of the 3.5 billion dollars of economic aid extended since 1956. Furthermore, over one-quarter of the total went to only three countries--Pakistan, Tanzania, and Zambia--and more than 10 per cent was committed to a single project, the Tan-Zam Railroad.

In addition to its economic assistance to the LDCs, China has since 1953 maintained an extensive aid programme in other CPCs. Commitments of Chinese economic aid to the CPCs have totalled a minimum of 2.7 billion dollars through 1974. Although fluctuations in the annual level of new commitments have certainly occurred, they have not been nearly as severe as in the case of China's aid programme in the LDCs. Aid commitments to the CPCs averaged less than 100 million dollars annually in the 1950s, but increased to almost 115 million dollars per year during the next decade. In 1970, the PRC extended a record 365 million dollars, exceeding by more than 20 per cent the previous peak years of 1961 and 1968. From 1971 to 1974, Chinese aid to other CPCs consisted of annual contributions of 100-125 million dollars for North Vietnam.

The geographic distribution of China's economic assistance programme in the CPCs has been much more concentrated than its parallel programme in the LDCs. For example,

China has extended 2.7 billion dollars of aid to only seven CPCs (i.e. an average of about 380 million dollars per country), compared to 3.5 billion dollars to 47 LDCs (i.e. only 75 million dollars per country). Furthermore, one country alone--North Vietnam--accounts for more than one-half of total commitments to the CPCs, and has received more Chinese aid (over one billion dollars) than any other country.

China's trade with the LDCs reached a peak of 1,300 million dollars in 1966. Although the volume of this trade subsequently declined over the next few years, as the economic effects of the Cultural Revolution forced a retrenchment in foreign trade in general, it still averaged over 1,100 million dollars annually. By 1974, China's LDC trade had risen to a record 3,740 million dollars. Between 1960 and 1974, Chinese trade with the LDCs advanced at an average annual rate of 14 per cent, compared to only nine per cent for total trade, resulting in an increase in the LDCs' share of China's total trade to 27 per cent in 1974.

In addition to the LDCs, China conducts a considerable amount of trade with the developing centrally planned economies in Asia, Latin America, and Europe. After dropping from a peak of 545 million dollars in 1965 to 460 million dollars in 1970, Chinese trade with the developing CPCs rebounded to a record 1,360 million dollars in 1974. Trade with these countries accounted for 10 per cent of China's total trade in 1974. Thus, trade with all developing coun-

tries--including both the LDCs and the developing CPCs--comprised almost two-fifths of China's 1974 trade.

China has made technical assistance a major element of its foreign aid programme. The number of Chinese technicians sent abroad under technical assistance programmes has grown to sizable magnitudes over the years, rising from some 25 technicians in 1957 to almost 23,000 in 1974. The overwhelming share has been engaged on aid projects in African countries. In contrast with the large number of Chinese technicians working in the LDCs, only about 750 technical personnel from the LDCs have trained in China and the Chinese have allowed very few LDC academic students to study in the PRC.

China's aid policy is officially guided by eight principles which were first stated by Premier Chou En-lai while visiting Africa in 1964. Briefly, they state that Chinese economic and technical assistance should be based on: (1) equality and mutual benefit and not charity; (2) respect of the recipient country's sovereignty with no conditions attached nor special privileges for China; (3) interest-free or low-interest loans with a possibility of extending the repayment period if necessary; (4) encouraging self-reliance and independence of the recipient's economy; (5) low capital input with quick rates of return; (6) best quality equipment and material of Chinese manufacture at international market prices with free replacement if

they are found to be unsuitable; (7) full training of local counterparts; and (8) willingness of Chinese experts to accept local living standards, not make any special demands, nor enjoy any special amenities.

China's economic assistance is extended almost exclusively on a bilateral basis and, except for a few hard currency credits, is tied to the procurement of Chinese goods and services. Project aid has accounted for about two-thirds of Chinese commitments to the LDCs and has concentrated on the construction of transportation facilities, on light industrial projects, and on agricultural development. In contrast, China's aid projects in the CPCs have been mainly directed toward the establishment of heavy industry and manufacturing. The rest of Chinese aid has been in the form of commodities and foreign exchange.

The decision to embark upon the Tan-Zam Railroad project meant a break with the previous pattern of China's aid programme, since until then China had steered away from large prestige projects. The Tan-Zam Railroad is the most ambitious of Chinese aid projects and absorbed an amount equivalent to almost 40 per cent of the total of all previous Chinese aid commitments to the LDCs. It was this spectacular undertaking which made China suddenly known as an important aid donor.

The financial terms of Chinese aid are highly concessional. Grants have comprised about 15 per cent of China's

economic assistance to the LDCs, compared to over one-half in the case of the CPCs. The rest of China's aid has consisted of long-term loans on extremely soft terms. The typical Chinese loan commitment of the 1960s was interest-free with a maturity of 20 years, including a grace period of 10 years. In the 1970s, longer grace periods have been allowed, frequently ranging up to 20 or 30 years, and the maturities have often been longer than before, reaching 40 to 60 years. The repayment terms usually provide for repayment in local goods and long-term financing is often provided to cover the local costs of aid projects. These generous payment terms make Chinese aid an attractive form of assistance, particularly to the poorer developing countries.

Chinese foreign aid is motivated by a variety of interests. Ostensibly, Chinese aid is motivated by humanitarian interests. In this respect, the Chinese aid programme does not differ from that of any other donor. However, while the importance of the humanitarian motive should not be underestimated, it is certainly not the whole case. Self-serving motives, notably political and economic interests based on narrow nationalistic goals, have played a considerable role in Chinese aid policy. Indeed, this practice is upheld by China in the first of Chou's "Eight Principles", that of "equality and mutual benefit". Foreign aid represents a valuable instrument of the PRC's overall foreign policy and appears to be the most effective tool available for expanding

and consolidating its influence in the developing countries and for countering that of other major powers. Furthermore, China has a vested interest in the economic development of the developing countries since the PRC earns the foreign exchange required to purchase needed imports from the DMCs by maintaining a large trade surplus with the LDCs.

2. The Real Cost of Chinese Aid

There are a number of ways of examining the main macro-economic effects of the Chinese aid programme. The approach used here is to estimate in quantitative terms the real cost or burden of foreign aid on the Chinese economy, and thereby gain insight into and add perspective to China's aid effort. A further understanding of China's aid-giving performance is obtained by relating the estimated real cost to the size of the economy. In addition, the balance of payments effects are considered in order to obtain as complete a view as possible of the cost or burden of aid on the Chinese economy.

The procedure for estimating the real cost of Chinese aid is fairly straightforward.² The first step is to calculate

²Several authors have been concerned specifically with attempting to measure foreign aid in terms of economic cost to the donor country. Some examples are: James Richard Carter, The Net Cost of Soviet Foreign Aid (New York: Praeger Publishers, 1971); Franklyn D. Holzman, "The Real Economic Costs of Granting Foreign Aid", Journal of Development Studies,

the volume of gross disbursements, i.e. the actual outflow of financial resources as opposed to mere promises of assistance (commitments). Even this is revealing and would, if Chinese economic assistance was entirely in the form of grants of free foreign exchange, result in a reasonable indication of the actual burden associated with Chinese aid. However, China's aid programme did not conform to this pat-

Vol. 7, No. 3, April, 1971, pp. 245-255; Bryan Hopkin and Associates, "Aid and the Balance of Payments", Economic Journal, Vol. LXXX, No. 317, March, 1970, pp. 1-23; W.G. Huff, "Canadian Bilateral Aid: Canadian Content and Balance-of-Payments Cost", Journal of World Trade Law, Vol. 7, No. 5, September-October, 1973, pp. 587-597; Irving B. Kravis and Michael W.S. Davenport, "The Arithmetic of International Burden Sharing", Journal of Political Economy, Vol. LXXI, No. 4, August, 1963, pp. 309-330; I.M.D. Little and J.M. Clifford, International Aid (London: George Allen and Unwin, 1965); Martha F. Loutfi, The Net Cost of Japanese Foreign Aid (New York: Praeger Publishers, 1973); Alastair McAuley and Dubrawko Matko, "Soviet Foreign Aid", Bulletin of Oxford University Institute of Economics and Statistics, Vol. XXVIII, No. 4, November, 1966, pp. 261-271; Raymond F. Mikesell, The Economics of Foreign Aid (Chicago: Aldine Publishing Company, 1968); Goran Ohlin, Foreign Aid Policies Reconsidered (Paris: OECD, 1966); Lester B. Pearson, Partners in Development: Report of the Commission on International Development (New York: Praeger Publishers, 1969), pp. 139-141; John A. Pincus, "The Cost of Foreign Aid", Review of Economics and Statistics, Vol. XLV, No. 4, November, 1963, pp. 360-367; John A. Pincus, Economic Aid and International Cost Sharing (Baltimore: Johns Hopkins Press, 1965); J.M. Quigley, "A Quantitative Discussion of Swedish Foreign Aid and Balance of Payments", Swedish Journal of Economics, Vol. 68, No. 3, September, 1966; W.E. Schmidt, "The Economics of Charity: Loans Versus Grants", Journal of Political Economy, Vol. 72, No. 4, August, 1964. In addition, the Development Assistance Committee of the OECD has done considerable work in this area and publishes each year the main results of its statistical survey in the DAC's Annual Review.

tern. Rather, as was explained earlier, it consisted mostly of long-term interest-free loans that could be used to purchase only specific Chinese goods and services. The next step, therefore, goes well beyond the crude measure of gross disbursements and distinguishes three new concepts according to the types of reverse flows which are deducted from gross capital outflows. The concepts are: (1) net disbursements, (2) net transfer, and (3) grant equivalent. While no one concept on its own is a fully adequate measure of the true sacrifice or concession that China makes in transferring financial resources to developing countries, together they yield enough information to formulate an intelligent opinion.³

Up to this point, the Chinese economic aid programme has been examined only in terms of commitment figures, which would indicate that it is a six billion dollar operation through 1974. This is undoubtedly true as far as it goes. Extensions or commitments of Chinese economic aid are normally accompanied by numerous announcements and press releases concerning the grants and loans, and these releases often include details concerning the amount of assistance extended. Thus, estimates of Chinese aid commitments are relatively

³It must be emphasized that none of these concepts is a measure of economic benefits of foreign aid to recipients. Benefits to recipients of a given amount of external resources are not necessarily identical to the costs to donors.

accurate, being based in part on data released by the PRC and confirmed by the recipient countries.

However, economic aid commitments are simply promises, or a firm obligation expressed in an aid agreement, to furnish assistance of a specified amount under specified financial terms and conditions, and are not a reliable indicator of the real cost of the Chinese aid programme. Promises as to the availability of economic aid, even when in specified amounts, represent only a contingent liability to the donor and do not become a cost until the aid is actually drawn upon or disbursed. What is required, therefore, is a measure of the actual incidence of aid. The concept of gross disbursements, which relates to the actual placement of resources at the disposal of the recipient, provides such a measure.

Tables 29-30 contain estimates of commitments and gross disbursements of Chinese economic aid through 1974 to the LDCs and to other CPCs, respectively.⁴ It is evident from the tables that actual outlays of Chinese economic assistance have fallen considerably short of commitments,

⁴Since neither China nor the recipient country publishes adequate or comprehensive data on deliveries of Chinese aid, estimates of gross disbursements of Chinese aid are generally not as detailed nor as accurate as the commitments data. For an explanation of the sources and methodology used to estimate gross disbursements, net disbursements, net transfer, and grant equivalent of Chinese economic aid, see Appendix F of this thesis.

TABLE 29
REAL COST OF CHINESE ECONOMIC AID TO THE LDCs, 1956-1974

Year	GNP	Commitments		Gross Disbursements		Net Disbursements ^a		Net Transfer ^b		Grant Equivalent ^c	
	Per Capita US Dollars	Millions of US Dollars	Per Cent of GNP	Millions of US ^d Dollars	Per Cent of GNP	Millions of US ^d Dollars	Per Cent of GNP	Millions of US ^d Dollars	Per Cent of GNP	Millions of US ^d Dollars	Per Cent of GNP
1956	141	57	0.06	5	0.01	5	0.01	5	0.01	5	0.01
1957	147	16	0.02	10	0.01	10	0.01	10	0.01	5	0.01
1958	172	35	0.03	15	0.01	15	0.01	15	0.01	10	0.01
1959	160	2	neg.	15	0.01	15	0.01	15	0.01	10	0.01
1960	155	74	0.07	25	0.02	25	0.02	25	0.02	20	0.02
1961	118	107	0.13	30	0.04	30	0.04	30	0.04	25	0.03
1962	133	17	0.02	30	0.03	30	0.03	30	0.03	25	0.03
1963	144	88	0.09	35	0.03	35	0.03	35	0.03	30	0.03
1964	160	383	0.33	85	0.07	85	0.07	85	0.07	70	0.06
1965	179	73	0.05	85	0.06	85	0.06	85	0.06	70	0.05
1966	190	119	0.08	85	0.06	85	0.06	85	0.06	70	0.05
1967	180	50	0.04	90	0.06	90	0.06	90	0.06	75	0.05
1968	178	54	0.04	85	0.06	85	0.06	85	0.06	70	0.05
1969	192	10	0.01	40	0.03	35	0.02	35	0.02	30	0.02
1970	214	709	0.40	120	0.07	115	0.06	115	0.06	95	0.05
1971	222	515	0.27	170	0.09	165	0.09	165	0.09	135	0.07
1972	225	553	0.28	235	0.12	230	0.12	230	0.12	190	0.10
1973	241	428	0.20	285	0.13	275	0.13	275	0.13	225	0.10
1974	243	242	0.11	315	0.14	300	0.13	300	0.13	250	0.11
Total/ Average	182	3,532	0.13	1,765	0.07	1,715	0.07	1,710	0.07	1,405	0.05

SUMMARY AND CONCLUSIONS

TABLE 29--CONTINUED

Sources: GNP per capita and Commitments: Tables 6 and 12, pp. 69 and 141, of this thesis. Gross Disbursements, Net Disbursements, Net Transfer, and Grant Equivalent: Estimated by the writer. For details on sources and methodology, see App. F of this thesis.

^aGross disbursements minus current receipts of amortization on past loans.

^bGross disbursements minus current receipts of amortization and interest on past loans.

^cGross disbursements minus the discounted present value of future reflows of amortization and interest resulting from these same disbursements (assuming a discount factor of 10 per cent).

^dRounded to the nearest five million dollars. Because of rounding, components may not add to the totals shown.

neg. means "negligible".

TABLE 30

REAL COST OF CHINESE ECONOMIC AID TO OTHER CPCs, 1953-1974

Year	GNP Per Capita		Commitments		Gross Disbursements		Net Disbursements ^a		Net Transfer ^b		Grant Equivalent ^c	
	US Dollars	Millions of US Dollars	Per Cent of GNP	Millions of US Dollars ^d	Per Cent of GNP	Millions of US Dollars ^d	Per Cent of GNP	Millions of US Dollars ^d	Per Cent of GNP	Millions of US Dollars ^d	Per Cent of GNP	
1953	122	200	0.28	65	0.09	65	0.09	65	0.09	50	0.07	
1954	125	--	--	65	0.09	65	0.09	65	0.09	50	0.07	
1955	134	204	0.25	135	0.16	135	0.16	135	0.16	100	0.12	
1956	141	50	0.06	85	0.10	85	0.10	80	0.09	60	0.07	
1957	147	54	0.06	105	0.11	105	0.11	100	0.11	75	0.08	
1958	172	55	0.05	55	0.05	55	0.05	45	0.04	45	0.04	
1959	160	119	0.11	75	0.07	75	0.07	65	0.06	65	0.06	
1960	155	220	0.21	130	0.12	125	0.12	120	0.11	115	0.11	
1961	118	282	0.34	205	0.25	195	0.24	190	0.23	180	0.22	
1962	133	--	--	165	0.18	150	0.16	145	0.16	145	0.16	
1963	144	40	0.04	105	0.10	85	0.08	80	0.08	95	0.09	
1964	160	neg.	neg.	15	0.01	-10	-0.01	-15	-0.01	10	0.01	
1965	179	50	0.04	30	0.02	5	neg.	5	neg.	25	0.02	
1966	190	75	0.05	40	0.03	20	0.01	15	0.01	35	0.02	
1967	180	80	0.06	70	0.05	45	0.03	45	0.03	60	0.04	
1968	178	295	0.21	150	0.11	125	0.09	125	0.09	130	0.09	
1969	192	90	0.06	155	0.10	135	0.09	130	0.08	135	0.09	
1970	214	365	0.20	250	0.14	225	0.13	225	0.13	240	0.13	
1971	222	100	0.05	185	0.10	165	0.09	160	0.08	180	0.09	
1972	225	125	0.06	195	0.10	170	0.09	170	0.09	190	0.10	
1973	241	125	0.06	115	0.05	85	0.04	85	0.04	115	0.05	
1974	243	125	0.06	125	0.06	90	0.04	90	0.04	120	0.05	
Total/ Average	176	2,654	0.09	2,530	0.09	2,185	0.08	2,125	0.07	2,235	0.08	

TABLE 30--CONTINUED

Sources: GNP per capita and Commitments: Tables 6 and 14, pp.69 and 161, of this thesis. Gross Disbursements, Net Disbursements, Net Transfer, and Grant Equivalent: Estimated by the writer. For details on sources and methodology, see App.F of this thesis.

^aGross disbursements minus current receipts of amortization on past loans.

^bGross disbursements minus current receipts of amortization and interest on past loans.

^cGross disbursements minus the discounted present value of future reflows of amortization and interest resulting from these same disbursements (assuming a discount factor of 10 per cent).

^dRounded to the nearest five million dollars. Because of rounding, components may not add to the totals shown.

neg. means "negligible".

the difference representing aid promised but not yet delivered. For example, by the end of 1974, China had committed 6.2 billion dollars of economic aid to the LDCs and the CPCs combined, but had actually disbursed only 4.3 billion dollars, which calculates to a disbursement ratio⁵ of slightly over two-thirds. Furthermore, this figure is the result of two completely different components. While in the case of CPC recipients practically all committed funds were disbursed, only about one-half of China's commitments to the LDCs had been drawn down by the end of 1974.

Tables 29-30 also demonstrate the gradually increasing volume of the actual transfer of Chinese resources to developing countries. Gross disbursements to the LDCs increased from about five million dollars in 1956 to 315 million dollars in 1974. In the case of the CPCs, gross disbursements fell from a high of 205 million dollars in 1961 to only 15 million dollars in 1964. They recovered to 250 million dollars in 1970 but decreased to 125 million dollars in 1974. Total gross disbursements of economic aid from the PRC to both groups has averaged about 400 million dollars annually in the 1970s, reaching a peak of 440 million dollars in 1974.

⁵Actual aid disbursements as a proportion of total aid commitments.

If Chinese aid consisted exclusively of convertible currency grants, the above estimates of gross disbursements would give a relatively accurate valuation of the true cost or burden of such aid on the Chinese economy. But most of China's aid programme is composed of long-term loans tied to the procurement of Chinese goods and services.⁶ Thus, the crude measure of gross disbursements must be refined further to take account of the reverse flow of amortization and interest repayments on these loans. This leads to the concepts of net disbursements, net transfer, and grant equivalent.

It may be useful to view the three concepts as different types of adjustment to gross disbursements; each one being a different, but equally valid, way of measuring the real economic cost of foreign aid. While conceptually the three measures are rather different, in actual fact (as expressed in absolute dollar amounts in Tables 29-30 above) the differences between them are not major. This is not surprising since they all have the same basic starting-point, i.e. gross disbursements. Furthermore, the value of grants is the same for all three concepts.

The concept of net disbursements currently enjoys international acceptance as the standard method of measuring

⁶The effect of "aid tying" on the cost of the Chinese aid programme is considered on pp. 283-285 below.

aid to developing countries,⁷ and is defined as the gross outflow of resources less the reverse flow of amortization receipts. Hence, it reflects current policies on volume and past policies on financial terms (maturities), and to some extent also volume. The virtual absence of accurate data on repayments of Chinese aid necessitated that they be estimated on the basis of the following assumptions (see Appendix F for details): (1) Grants accounted for 15 per cent and 50 per cent of Chinese aid to the LDCs and the CPCs, respectively, in each year. (2) Except as specified below, all Chinese loans were homogeneous and were extended on soft terms. The typical Chinese loan carried zero per cent interest, 10 years grace, and 20 years maturity. However, slightly harder terms were demanded in the earlier years of the aid programme, and in the 1970s loans have been on highly concessional terms, i.e. grace periods of 20 years and maturities of 40 years. (3) Amortization repayments were made in equal annual instalments and interest was payable on the declining balance outstanding. Based on these assumptions, net disbursements of Chinese aid were computed by subtracting the amount of esti-

⁷Although the concepts of net transfer and grant equivalent (of gross disbursements) are used in the DAC's "burden sharing" calculations, both the UN and the DAC use the net disbursements concept to measure ODA contributions and total resource flows. Thus, the 0.7 per cent of GNP and one per cent of GNP aid targets are both based on it.

mated repayments of amortization from gross disbursements. The results are shown in Tables 29-30.

The net transfer is defined as the gross outflow of resources less the reverse flow of interest and amortization receipts, and reflects current policies on volume and past policies on financial terms (both maturities and interest rates), and to some extent also volume. Thus, the deduction of interest is all that separates net transfer from net disbursements. The decision to subtract repayments of interest as well as amortization from gross disbursements is based on the view that the actual transfer of resources generated by a loan is a composite amount in which a dollar expended on interest has the same weight as a dollar of amortization return. (The counter-view is that interest should be treated as the price for services rendered in providing capital, and so should not be taken into account in calculating the net flow of resources.) The net transfer of Chinese aid is presented in Tables 29-30, and was computed by deducting the estimated amount of interest repayments from net disbursements.

Foreign aid involves China in opportunity costs which arise from not using aid funds in some alternative way. Aid competes with other items of Chinese Government expenditure; the diversion of aid funds to some other use, or vice versa, is essentially a matter of basic choices and priorities which must be decided by the Chinese Government. Thus, the

domestic economy foregoes certain goods and services as a result of the aid item, whether they be extra schools and hospitals, or more industrial plants and nuclear missiles. Theoretically, the opportunity cost of aid equals the return, or benefit, foregone by not using aid funds in their best alternative use according to some criterion or set of criteria, and is usually measured in terms of foregone future income. In practice, it depends on the alternative way in which aid funds would have been used, whether for current consumption or for investment (or some combination thereof). If diverted to current consumption, there is no direct loss of future income. If diverted to investment, the cost depends on the rate of return which this investment generates. In this thesis, it is assumed that all aid funds would have been invested; hence, the opportunity cost measures the maximum real cost to China of aid-giving.

Grant equivalent is the practical measure of the opportunity cost of Chinese aid. An initial problem in assessing this cost arises from the fact that Chinese aid consists of concessional loans, on which there are some future financial returns to the PRC, as well as grants, on which there are no such returns. Loans can, however, be put on the same footing as grants by calculating their grant equivalent, which is then added to the face value of grants to arrive at the total grant equivalent of Chinese aid

disbursements.⁸ The estimated grant equivalent of Chinese aid is displayed in Tables 29-30, and was calculated by taking the value of current gross disbursements and subtracting the discounted present value of future reflows of amortization and interest resulting from these same disbursements. The future amortization and interest repayments were estimated on the basis of the same assumptions as on p. 274 above and were discounted at a uniform rate of 10 per cent.⁹

Unlike the concepts of net disbursements and net transfer, which are approximate measures of the budgetary

⁸Not to be confused with the grant equivalent of commitments, referred to as the grant element when it is expressed as a percentage of the face value of a loan commitment. The distinction is important because a cost is incurred with regard to disbursements, not commitments. The grant element is used by the DAC to compare the financial terms policies of major donors, and was used in Chapter IV of this thesis to appraise Chinese aid policies. For more information, see Appendix B of this thesis.

⁹The selection of an approximate discount rate to represent the donor's marginal borrowing rate (a proxy for the direct cost of long-term capital) or the marginal social productivity of capital in the donor country (the opportunity cost) is not a simple matter for any economy, and for the PRC it presents difficulties that are impossible to overcome with any great degree of confidence. However, the multiplicity of rates that would result from extreme precision is not necessary, or even useful, to our analysis because we are seeking a single rate to apply for the whole period. Furthermore, the use of a different rate would entail serious difficulties in comparing the results for China with the results for other donors, as is done later in this chapter.

incidence of aid, the grant equivalent is an entirely notional figure. Although it is expressed in absolute dollar amounts in Tables 29-30, it does not correspond to an actual flow of goods and services of that size during the reference period, nor has it any relation to the immediate budgetary incidence or resource flow impact of aid. However, the grant equivalent is included as a measure of the real cost of Chinese aid because it takes account of current financial terms. Indeed, for this reason, the grant equivalent is probably a better indicator of the current real cost of the on-going Chinese aid programme than either net disbursements or net transfer. While the latter two concepts are determined primarily by current policies on volume and past policies on financial terms, the grant equivalent is an up-to-date reflection of current policies on both volume and financial terms.

Together, the three concepts--net disbursements, net transfer, and grant equivalent--provide a reasonably accurate indication of the real cost or burden associated with the Chinese aid programme. According to net disbursements, Chinese aid cost a total of 3.9 billion dollars through 1974 (see Tables 29-30 above)--1.7 billion dollars for contributions to the LDCs and 2.2 billion dollars for the CPCs. Since the majority of Chinese loans have been extended interest-free, repayments of interest have been small, and

thus the difference between net disbursements and net transfer not significant. The net transfer of Chinese aid to the LDCs and the CPCs amounted to 1.7 billion dollars and 2.1 billion dollars, respectively, resulting in a total of 3.8 billion dollars. The grant equivalent yields the lowest estimate of real cost. The results obtained from this method indicate a total real cost of 3.6 billion dollars, of which 1.4 billion dollars is due to the LDCs and 2.2 billion dollars to the CPCs.

In summary, it seems that foreign economic aid has actually cost the Chinese economy somewhere between 3.6 billion and 3.9 billion dollars through 1974, of which the LDCs and the CPCs accounted for 1.4-1.7 billion dollars and 2.1-2.2 billion dollars, respectively. This compares with gross disbursements of 4.3 billion dollars (1.8 billion dollars to the LDCs and 2.5 billion dollars to the CPCs) and commitments of 6.2 billion dollars (3.5 billion dollars to the LDCs and 2.7 billion dollars to the CPCs). The annual fluctuations have followed roughly the same pattern as gross disbursements (see p. 272 above). In 1974, the cost of China's aid programmes in the LDCs and the CPCs came to an estimated 250-300 million dollars and 90-120 million dollars, respectively, yielding a total cost of 370-390 million dollars.

To gain further insight into China's aid effort, it is useful to consider the real cost of economic assistance in

relation to the aid-giving capacity of the PRC economy. The aggregate chosen for the measurement of aid-giving capacity is GNP. Thus, Tables 29-30 above take the three measures of aid cost (net disbursements, net transfer, and grant equivalent), as well as commitments and gross disbursements, and express them as a per cent of GNP in each year. In general, the results indicate that the cost of aid to the LDCs has been accounting for a steadily increasing share of GNP, but they show no particular trend in the case of aid to the CPCs, only fluctuations.

In 1974, the estimated cost of Chinese aid ranged from 0.16 per cent to 0.17 per cent of GNP, of which 0.11-0.13 per cent represented aid to the LDCs and 0.04-0.05 per cent aid to the CPCs. Four observations are worth mentioning: (1) At 0.2 per cent of GNP, aid represents only a small claim on China's economic resources. Hence, the impact of the macro-economic effects associated with the Chinese aid programme are expected to be almost negligible. (2) As a proportion of GNP, the current cost of Chinese aid is lower than the peak level of 0.3 per cent reached in 1961. Thus, it is clear that China's aid effort in 1974 constituted a far lighter burden than that shouldered over a decade earlier, especially when the principle of progressivity is taken into

account.¹⁰ Not only was the proportion of GNP devoted to aid lower in 1974 than in 1961, but Chinese GNP and GNP per capita were much higher in 1974 than in 1961. (3) Also of significance is the fact that the main source of the aid burden has shifted from aid programmes in the CPCs to those in the LDCs. (4) Net aid disbursements were equivalent to only 0.2 per cent of Chinese GNP in 1974. This represents less than one-third of the UN target of 0.7 per cent (to which China has not subscribed). Thus, the PRC would have had to more than triple its aid effort to reach the target by 1974.

The quantitative estimates in Tables 29-30 offer a rough idea of the order of magnitude of China's aid effort, both in absolute dollar amounts and as a proportion of aid-giving capacity. However, in order to obtain a more complete and meaningful view of the total cost to China of providing economic assistance, and of the multifarious interrelationships between aid and other aspects of the Chinese economy, a number of additional factors, often of an unquantifiable kind, must be considered. It is within this context that the rest of this section investigates the effects of foreign aid on

¹⁰ According to the principle of progressivity, one would expect a direct or positive correlation between GNP per capita and the aid/GNP ratio. This principle is explored further in Section 3 of this chapter using a cross-sectional, rather than a time-series, analysis.

the Chinese balance of payments. Only in this way can one reach an informed conclusion on the total transfer of real resources that is involved.¹¹

Eight major factors are examined:¹² (1) changes in prices and exchange rates, (2) price discrimination, (3) trade promotion aspects of aid-giving, (4) import content of aid-financed exports, (5) switching, (6) induced imports, (7) reflection effects, and (8) capacity effects. The first two items concern the monetary valuation of the real volume of resource flows. The next five consider the effect of aid flows on Chinese exports.¹³ The impact of the last factor depends on the rate of capacity utilization in the Chinese economy as a whole and in particular sectors.

(1) It was estimated in Tables 29-30 that the cost of Chinese aid increased by almost 10 per cent, from about

¹¹To quote the late Lester B. Pearson, Partners in Development, p. 141: "In short, though there is no satisfactory way to translate the real burden of aid into a precise figure, it clearly runs far below the dollar value of all resources transferred. This fact deserves to be more widely known."

¹²For any economy, these factors would be difficult to measure in quantitative terms with any degree of accuracy. In the case of the PRC, the paucity of data renders the task virtually impossible. Nevertheless, the main factors are mentioned here, and the probable direction of their effect is indicated, so that the reader may draw his own conclusions concerning their influence on the cost of Chinese aid.

¹³This subject was also considered in the discussion of the economic motivation for Chinese aid-giving in Chapter IV, pp. 237-248 of this thesis.

340-360 million dollars in 1973 to 370-390 million dollars in 1974. These estimates are measured in current US dollars. Therefore, they overstate the true value of the real resources transferred because no account is taken either of price increases or of fluctuations in the rate of exchange between the Chinese renminbi and the US dollar.¹⁴ For example, if China had revalued by (say) four per cent against the US dollar, and shipped machinery and equipment whose world market price had risen by (say) six per cent, the data would show an increase of 10 per cent in current dollar terms, even though the real resources transferred were still the same. Hence, the real cost of Chinese aid probably grew by something less than 10 per cent in 1974.¹⁵

(2) The real cost of Chinese aid is also overstated to the extent that price discrimination may have resulted in the overvaluation of Chinese aid deliveries and the under-

¹⁴Expressing aid as a percentage of GNP (see pp. 279-281 above) broadly corrects the distortion arising from changes in prices and exchange rates.

¹⁵As an illustration, the DAC applies an index deflator of 174.4 (1970=100.0; 1973=143.7) to the total ODA flows of its member countries in 1974 (measured at current prices and exchange rates) in order to translate them into real terms. Thus, a nominal increase of 25 per cent in US dollars would correspond to a real increase of only about four per cent. See DAC, 1975 Review, Statistical Annex, Table 6, p. 199 for details.

valuation of repayments by aid recipients in the form of goods.¹⁶ Despite official policy that Chinese aid is provided at world market prices (see the sixth of Chou's "Eight Principles", p. 201 of this thesis), the likelihood of price discrimination arises from two facts: (a) Chinese aid is tied and (b) the Chinese practice of bilateral trading. Chinese aid is "tied" in the strictest sense of the term in that Chinese grants and loans extended to developing countries can only be used to purchase goods from the PRC, and the list of available goods is usually extremely restricted. There is little doubt that aid tying reduces the cost of Chinese aid by enabling the PRC to sell its goods abroad at prices which it would not be able to obtain except under aid-financed contracts.¹⁷ Furthermore, the Chinese practice of bilateral trading means that the prices of the goods that China exports to and imports from the developing countries are determined through

¹⁶Unfortunately, it is not possible to measure the exact amount that Chinese price discrimination may have reduced the cost of its aid programme. However, as a possible indication of the order of magnitude, Carter has estimated that exports by the USSR in the form of aid deliveries are overpriced by about 15 per cent, while Soviet imports in the form of aid repayments are underpriced by a similar amount. For details, see Carter, Soviet Foreign Aid, pp. 41-43 and 100.

¹⁷Several authors have explored the possibility that aid tying has resulted in higher prices for aid-financed exports, i.e. priced above the free market level. See, for example, Carter, Soviet Foreign Aid, pp. 41-43 and 100; Little and Clifford, International Aid, p. 57; Mikesell, Economics of Foreign Aid, pp. 229-236 and 246-254; Pearson, Partners in Development, pp. 172-175 and 191-193; and Pincus, "Cost of Foreign Aid", pp. 361-363.

bilateral negotiations rather than by market forces and competition among various buyers and sellers in a free market. It seems inconceivable that the Chinese would not use their stronger bargaining position, especially when the goods are financed under an aid agreement, to extract the most favourable terms of trade possible.

(3) China's economic assistance has resulted in an expansion of Chinese trade with aid recipients, and this increased volume of trade, since it has benefited the PRC economy, has tended to further reduce the cost of China's aid programme. Part of the increase was the direct result of aid deliveries and repayments (especially since Chinese aid is tied and is usually repaid in goods), while the remainder represents an expansion of exports in excess of those directly aid financed. In other words, the volume of China's trade with the developing countries may have improved by more than the amount of the original aid disbursement. This phenomenon may be due to a variety of factors, eg. the provision for local costs in many Chinese aid projects, the signing of trade and aid agreements simultaneously, the penetration of new export markets, reduced buyer resistance, and the creation of new markets for replacements and spare parts.¹⁸

¹⁸For a further discussion of these factors, see Chapter IV, pp. 237-241 of this thesis.

(4) One factor which works in the opposite direction, tending to worsen the balance of payments, is the import content cost of aid-financed exports. This is likely to vary according to the "openness" of the donor economy, being rather small in the case of a relatively closed economy such as China or the United States and larger for an open economy such as Sweden or Canada. Therefore, it is improbable that this factor would have a very significant effect on the cost of Chinese aid. Furthermore, if the import content of exports bought with aid did pose an undue burden on the PRC's balance of payments, the Chinese could easily correct this problem by discriminating aid policy in favour of financing exports with a very high value-added.

(5) Switching is also a cost to the balance of payments; it occurs when the recipient would have purchased some of the aid-financed exports from China in any case. The recipient will generally desire a considerable amount of switching; the donor country, if it is concerned with its balance of payments, will normally wish to minimize switching. Thus, China might be expected to minimize switching by tying aid expenditure to particular products, aid then being doubly tied. If the aid recipient can use a broad "shopping list" for spending the aid, switching is more likely to occur. Against this cost, however, should be set certain benefits derived from counter-switching; i.e. where aid releases foreign exchange, some of which will be used for

purchases from China, based on China's share in the recipient's expenditure of free foreign exchange.

(6) The Chinese economy may also benefit from induced imports--where the multiplier effects of aid on the recipient country's GNP stimulate imports from China.

(7) Likewise, reflection effects tend to improve China's balance of payments. They occur when aid, which the recipient spends in third countries, leads to third country imports from China. However, negative reflection effects work in the opposite direction; they result from success in minimizing switching. If China succeeds in having its aid spent on goods and services otherwise bought from third countries, causing diversion, those third countries may reduce their imports from China. The interrelationship is further complicated by government policies and the marginal propensities to save and to import in the third countries.

(8) The capacity effects concern the level and structure of the employment of resources in the donor country. Thus, the direction of their effect (i.e. whether a benefit or a cost) will depend on the rate of capacity utilization in the Chinese economy as a whole, and in particular sectors. If there is some spare capacity in the donor economy, the capacity effects may be beneficial because some parts of the donor's aid programme may take up sectoral slack resulting from cyclical factors. Or, from the other point of

view, some frictional unemployment might be created in certain sectors if the aid programme were abolished.¹⁹ If, on the other hand, the donor economy is operating at or near full employment, particularly in the export industries, the capacity effects may increase the cost of aid-giving because it might be difficult to satisfy demand for increased exports which are aid-financed, or the export industries will export under aid some of what they would have sold anyway. Furthermore, the aid programme may result in a cost to the donor economy by delaying adjustment in certain sectors to the working of structural factors. Since China is a centrally planned economy, the rate of capacity utilization is near 100 per cent.²⁰ Therefore, in the case of the PRC, we would expect the capacity effects to increase the real cost of the Chinese aid programme.

3. China's Comparative Aid-Giving Performance

Chapters III and IV of this thesis described China's aid effort in terms of, "inter alia", the volume and geographic distribution of the PRC's economic and technical

¹⁹The effects would be similar to those associated with the reduction or removal of a tariff.

²⁰For this reason, Holzman, "Real Economic Costs of Granting Foreign Aid", p. 245, concludes that "the granting of aid generally represents more of a sacrifice to centrally planned than to market economies."

assistance to the developing world, the composition of China's aid programme, the financial terms and conditions on which Chinese aid is extended, and China's trade with the developing countries. The previous section of this chapter went one step further by estimating the actual cost of the PRC's aid programme and relating it to the size of the Chinese economy. It is useful now to compare these findings to the aid programmes of other countries in order to give us an impression of China's rank as an aid donor. Accordingly, this section divides the subject matter into six categories-- (1) volume of economic assistance, (2) volume of economic assistance in relation to GNP, (3) composition of economic assistance, (4) financial terms and conditions of economic assistance, (5) technical assistance, and (6) trade with the LDCs--and then compares China's aid-giving performance in each category to that of the major DMC and CPC aid donors.

(1) Volume of Economic Assistance

Tables 31-32 compare the size of China's aid programme in absolute dollar amounts to the aid programmes of the major DMC donors.²¹ In terms of commitments, China was the seventh largest contributor in 1973 and the 11th largest in 1974. The PRC was in eighth place in 1974 in terms of gross

²¹Includes aid to both LDCs and CPCs.

TABLE 31

CHINA'S ECONOMIC ASSISTANCE COMPARED TO DMC DONORS,^a 1973

Country ^b	GNP		Gross				Net		Net		Grant	
	Per Capita	Commitments	Disbursements		Disbursements ^c		Transfer ^d		Equivalent ^e			
	US Dollars	Millions of US Dollars	% of GNP	Millions of US Dollars	% of GNP	Millions of US Dollars	% of GNP	Millions of US Dollars	% of GNP	Millions of US Dollars ^f	% of GNP	
Switzerland	6,438	59	0.14	67	0.16	65	0.16	64	0.15	65	0.16	
United States	6,155	4,396	0.34	3,430	0.26	2,968	0.23	2,712	0.21	2,980	0.23	
Sweden	6,089	406	0.82	278	0.56	275	0.56	273	0.55	270	0.54	
West Germany	5,624	1,606	0.46	1,369	0.39	1,102	0.32	982	0.28	1,080	0.31	
Denmark	5,458	174	0.63	134	0.49	132	0.48	131	0.48	125	0.45	
Canada	5,377	889	0.75	515	0.43	515	0.43	515	0.43	500	0.42	
Norway	5,027	126	0.63	89	0.45	87	0.43	86	0.43	95	0.47	
Australia	4,925	358	0.55	286	0.44	286	0.44	286	0.44	285	0.44	
France	4,892	1,791	0.70	1,649	0.65	1,488	0.58	1,430	0.56	1,455	0.57	
Belgium	4,705	296	0.65	237	0.52	235	0.51	233	0.51	225	0.49	
Netherlands	4,443	364	0.61	330	0.55	322	0.54	308	0.52	295	0.49	
Japan	3,758	1,365	0.34	1,144	0.28	1,011	0.25	915	0.22	775	0.19	
Finland	3,668	42	0.25	28	0.16	28	0.16	28	0.16	n.a.	n.a.	
New Zealand	3,661	37	0.34	29	0.27	29	0.27	29	0.27	25	0.24	
Austria	3,619	47	0.17	45	0.17	40	0.15	38	0.14	20	0.08	
United Kingdom	3,172	774	0.44	704	0.40	603	0.34	517	0.30	620	0.35	
Italy	2,518	201	0.15	282	0.20	192	0.14	159	0.11	150	0.11	
DMC Average	4,844	761	0.42	624	0.34	552	0.30	512	0.28	530	0.29	
China ^g	241	553	0.25	400	0.18	360	0.17	360	0.17	340	0.16	

TABLE 31--CONTINUED

Sources: China: Tables 29-30, pp. 268 and 270, of this thesis. DMC Donors: Based on OECD, DAC, Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee: 1975 Review (Paris: OECD, 1975), Statistical Annex, Tables 2, 5, 7-10, 17-18, and 46, pp. 195, 198, 200-205, 217-219, and 256-257. For details on sources and methodology, see App. F of this thesis.

^aIncludes aid from the 17 DAC member countries only, which accounts for nearly all DMC aid flows.

^bRanked in order of per capita GNP.

^cGross disbursements minus current receipts of amortization on past loans.

^dGross disbursements minus current receipts of amortization and interest on past loans.

^eGross disbursements minus the discounted present value of future reflows of amortization and interest resulting from these same disbursements (assuming a discount factor of 10 per cent).

^fRounded to the nearest five million dollars.

^gIncludes aid to both LDCs and CPCs.

TABLE 32

CHINA'S ECONOMIC ASSISTANCE COMPARED TO DMC DONORS,^a 1974

Country ^b	GNP Per Capita		Commitments		Gross Disbursements		Net Disbursements ^c		Net Transfer ^d		Grant Equivalent ^e	
	US Dollars	Millions of US Dollars	% of GNP	Millions of US Dollars	% of GNP	Millions of US Dollars	% of GNP	Millions of US Dollars	% of GNP	Millions of US Dollars ^f	% of GNP	
Switzerland	7,172	69	0.15	69	0.15	68	0.14	66	0.14	65	0.14	
Sweden	6,804	609	1.10	403	0.73	402	0.72	402	0.72	390	0.70	
United States	6,595	3,648	0.26	3,873	0.28	3,439	0.25	3,163	0.23	3,355	0.24	
Canada	6,345	816	0.57	714	0.50	713	0.50	712	0.50	685	0.48	
West Germany	6,193	2,397	0.62	1,662	0.43	1,430	0.37	1,292	0.34	1,385	0.36	
Denmark	6,044	216	0.71	174	0.57	168	0.55	168	0.55	160	0.53	
Australia	5,869	457	0.58	433	0.55	430	0.55	430	0.55	430	0.55	
Norway	5,747	203	0.88	133	0.58	131	0.57	131	0.57	130	0.57	
Belgium	5,462	362	0.68	273	0.51	271	0.51	269	0.50	250	0.47	
France	5,233	1,899	0.69	1,787	0.65	1,615	0.59	1,557	0.57	1,595	0.58	
Netherlands	5,110	549	0.79	445	0.64	435	0.63	420	0.61	385	0.56	
Finland	4,427	51	0.25	38	0.18	38	0.18	38	0.18	35	0.18	
Austria	4,373	126	0.38	59	0.18	60	0.18	58	0.17	35	0.11	
Japan	4,125	1,921	0.42	1,238	0.27	1,126	0.25	1,038	0.23	815	0.18	
New Zealand	4,092	64	0.52	39	0.31	39	0.31	39	0.31	35	0.30	
United Kingdom	3,420	1,084	0.57	833	0.43	731	0.38	637	0.33	730	0.38	
Italy	2,702	394	0.26	292	0.20	218	0.15	194	0.13	255	0.17	
DMC Average	5,290	874	0.44	733	0.36	666	0.33	624	0.31	645	0.32	
China ^g	243	367	0.16	440	0.20	390	0.17	390	0.17	370	0.17	

TABLE 32--CONTINUED

Sources: China: Tables 29-30, pp. 268 and 270, of this thesis. DMC Donors: Based on OECD, DAC, Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee: 1975 Review (Paris: OECD, 1975), Statistical Annex, Tables, 2, 5, 7-10, 17-18, and 46, pp. 195, 198, 200-205, 217-219, and 256-257. For details on sources and methodology, see App. F of this thesis.

^aIncludes aid from the 17 DAC member countries only, which accounts for nearly all DMC aid flows.

^bRanked in order of per capita GNP.

^cGross disbursements minus current receipts of amortization on past loans.

^dGross disbursements minus current receipts of amortization and interest on past loans.

^eGross disbursements minus the discounted present value of future reflows of amortization and interest resulting from these same disbursements (assuming a discount factor of 10 per cent).

^fRounded to the nearest five million dollars.

^gIncludes aid to both LDCs and CPCs.

disbursements. Measured by the more meaningful concepts of net disbursements, net transfer, and grant equivalent, China ranked 10th--after such major donors as the United States, France, West Germany, Japan, United Kingdom, and Canada, and in roughly the same spot as Australia, Netherlands, and Sweden.

China's aid volume is compared to other CPC donors in Tables 33-34.²² Traditionally, China has been the second largest supplier of CPC aid (although in 1970 the PRC pledged more aid than even the USSR). Indeed, in 1974 China actually disbursed more economic aid to the LDCs than all of the Eastern European nations combined.

(2) Volume of Economic Assistance in Relation to GNP

China's aid effort relative to the performance of DMC donors is worsened by expressing the volume of economic assistance as a proportion of GNP (see Tables 31-32). In 1974, the PRC ranked near the bottom of the list in terms of the aid/GNP ratio. This contrasts to 10th position in sheer dollar volume, and places China slightly behind Japan and the United States vis-a-vis aid in relation to GNP, and at about the same level as Austria, Finland, Italy, and Switzerland. Furthermore, total net disbursements of Chinese aid amounted to 0.17 per cent of GNP in 1974, compared to

²²Includes only aid to LDCs.

TABLE 33

CHINA'S ECONOMIC ASSISTANCE COMPARED TO OTHER CPC DONORS,^a 1973

Country	GNP		Gross		Net		Net		Grant		
	Per Capita	Commitments	Disbursements	Disbursements ^b	Transfer ^c	Equivalent ^d					
	US Dollars	Millions of US Dollars	% of GNP	Millions of US Dollars ^e	% of GNP	Millions of US Dollars ^e	% of GNP	Millions of US Dollars ^e	% of GNP	Millions of US Dollars ^e	% of GNP
USSR	2,030	657	0.13	700	0.14	375	0.07	265	0.05	330	0.07
Eastern Europe ^f	2,330	484	0.21	225	0.10	125	0.05	90	0.04	95	0.04
China	241	428	0.20	285	0.13	275	0.13	275	0.13	225	0.10

Sources: China: Table 29, p. 268, of this thesis. USSR and Eastern Europe: Based on OECD, Flow of Resources to Developing Countries (Paris: OECD, 1973), pp. 407-422; OECD, DAC, Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee: 1975 Review (Paris: OECD, 1975), pp. 175-179; UN, Department of Economic and Social Affairs, World Economic Survey, 1974, Part One: Mid-term Review and Appraisal of Progress in the Implementation of the International Development Strategy (New York: UN, 1975), pp. 176-185; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1974, Report No. 293, January 27, 1976, pp. 5-7, and Appendix, Tables 2-3; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1972, Research Study RECS-10, June 15, 1973, p. 7; USDS, Bureau of Public Affairs, Background Notes on the Countries of the World: Romania, Pubn. 7890 (Washington, D.C.: US Government Printing Office, 1975), p. 1; World Bank, 1975 World Bank Atlas (Washington, D.C.: World Bank, 1975), Annex, pp. 27-30. For details on sources and methodology, see App. F of this thesis.

^aDoes not include aid to developing CPCs, such as Albania, Cuba, North Korea, Mongolia, and North Vietnam.

^bGross disbursements minus current receipts of amortization on past loans.

^cGross disbursements minus current receipts of amortization and interest on past loans.

^dGross disbursements minus the discounted present value of future reflows of amortization and interest resulting from these same disbursements (assuming a discount factor of 10 per cent).

^eRounded to the nearest five million dollars.

^fConsists of Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.

TABLE 34

CHINA'S ECONOMIC ASSISTANCE COMPARED TO OTHER CPC DONORS,^a 1974

Country	GNP		Commitments		Gross Disbursements		Net Disbursements ^b		Net Transfer ^c		Grant Equivalent ^d	
	Per Capita											
	US Dollars	Millions of US Dollars	% of GNP	Millions of US Dollars ^e	% of GNP	Millions of US Dollars ^e	% of GNP	Millions of US Dollars ^e	% of GNP	Millions of US Dollars ^e	% of GNP	
USSR	2,300	563	0.10	1,000	0.17	550	0.09	400	0.07	470	0.08	
Eastern Europe ^f	2,670	531	0.20	225	0.09	75	0.03	25	0.01	95	0.04	
China	243	242	0.11	315	0.14	300	0.13	250	0.13	250	0.11	

Sources: China: Table 29, p. 268, of this thesis. USSR and Eastern Europe: Based on OECD, Flow of Resources to Developing Countries (Paris: OECD, 1973), pp. 407-422; OECD, DAC, Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee: 1975 Review (Paris: OECD, 1975), pp. 175-179; UN, Department of Economic and Social Affairs, World Economic Survey, 1974, Part One: Mid-term Review and Appraisal of Progress in the Implementation of the International Development Strategy (New York: UN, 1975), pp. 176-185; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1974, Report No. 298, January 27, 1976, pp. 5-7, and Appendix, Tables 2-3; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1972, Research Study RECS-10, June 15, 1973, p. 7; USDS, Bureau of Public Affairs, Background Notes on the Countries of the World: Romania, Pubn. 7890 (Washington, D.C.: US Government Printing Office, 1975), p. 1; World Bank, 1975 World Bank Atlas (Washington, D.C.: World Bank, 1975), Annex, pp. 27-30. For details on sources and methodology, see App. F of this thesis.

^aDoes not include aid to developing CPCs, such as Albania, Cuba, North Korea, Mongolia, and North Vietnam.

^bGross disbursements minus current receipts of amortization on past loans.

^cGross disbursements minus current receipts of amortization and interest on past loans.

^dGross disbursements minus the discounted present value of future reflows of amortization and interest resulting from these same disbursements (assuming a discount factor of 10 per cent).

^eRounded to the nearest five million dollars.

^fConsists of Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.

the DMC average of 0.33 per cent.

The reverse is true in the case of China's aid-giving performance compared to other CPC donors (see Tables 33-34). While China was the second largest CPC donor in 1974 according to the absolute dollar figures, it ranks number one when the actual aid volume is expressed as a percentage of GNP. For example, net disbursements of Chinese aid to the LDCs came to 0.13 per cent of GNP in 1974, compared to 0.03 per cent for the Eastern European countries and 0.09 per cent for the USSR.

China's aid-giving performance improves if one accounts for the principle of progressivity because the presentation of aid flows as simple percentages of GNP does not make any distinction, as regards the capacity to assist, between the richer and poorer donors.²³ In other words, the principle recognizes that a given level of aid as a proportion of aid-giving capacity (GNP) normally constitutes a greater burden for a poorer country, such as China or Italy, than for a richer country, such as the United States or Canada. Therefore, in comparing the aid programmes of various donors, per capita product differences among these countries should be taken into account.

²³This is essentially the same principle as that used in the domestic tax systems (progressive income tax) of most industrialized countries, except that it is applied internationally with respect to aid-giving.

Despite the absence of any specific formula for relating GNP per capita to aid as a proportion of GNP, some indication can be obtained by examining comparative rankings. Thus, if one arranges the donor countries in order of per capita GNP (as in Tables 31-34), the effective operation of the principle of progressivity would mean that the rankings in terms of aid as a per cent of GNP should be similar. However, the comparative figures in Tables 31-34 show that there is no obvious correlation between GNP per capita and aid as a per cent of GNP. Some of the richer countries appear much lower down the ranking list from the point of view of aid effort, while the reverse is true for some of the poorer countries. As far as China is concerned, the conclusion is that the Chinese aid effort stands up fairly well to international comparison. For example, while China's aid/GNP ratio in 1974 was about one-half of the DMC average, its per capita GNP was less than 1/20th of the DMC average. Furthermore, China contributes more aid in relation to its GNP than the other CPC donors.

(3) Composition of Economic Assistance

The composition of Chinese aid is similar to that of the USSR and the Eastern European countries in that it is almost exclusively bilateral, the single exception being aid to the UN Development Programme and other UN organizations.

In addition, the USSR and Eastern European countries have established a special Development Aid Fund, which is administered by the Moscow-based International Investment Bank.²⁴ Bilateral assistance also represents a large portion (almost three-quarters) of total DMC aid. The proportion fluctuates from a high of 91 per cent for Australia and 86 per cent for France to a low of 34 per cent for Austria and less than one per cent for Italy.²⁵

The aid programmes of both the USSR and Eastern Europe are heavily project-oriented. Some 90 per cent of Soviet and Eastern European assistance is tied to projects. In particular, more than 95 per cent of Soviet aid allocations have been for project aid.²⁶ The Chinese are not nearly as dependent on the project approach: project assistance amounts to about two-thirds of Chinese aid. On the other hand, only about one-third of DMC aid (excluding multi-

²⁴DAC, 1975 Review, pp. 175-176; OECD, Flow of Resources, pp. 407 and 413; UN, World Economic Survey, 1974, Part One, pp. 176 and 178-179; and USDS, Aid and Trade in 1974, p. 5.

²⁵DAC, 1975 Review, Statistical Annex, Tables 11-17, pp. 206-217.

²⁶OECD, Flow of Resources, pp. 400, 407, and 413; Tansky, "Chinese Foreign Aid", p. 375; and UN, World Economic Survey, 1974, Part One, p. 176.

lateral contributions and technical assistance) is in the form of project assistance. The proportion rises to over two-fifths if food aid is also excluded.²⁷

The sectoral allocation of Soviet aid favours industry (particularly heavy industry), energy, and transportation, with about 80 per cent of bilateral aid being channelled into these sectors. The large share of industry and energy in total commitments (about three-quarters) applies also to the Eastern European countries.²⁸ The DMCs, on the other hand, have allocated only slightly over one-half of their project aid for industry, energy, and transportation. The remainder has been used primarily for social infrastructure and agriculture.²⁹ About three-quarters of Chinese aid to the LDCs has been allocated for transportation, light industry, and agriculture. Only five per cent of this aid has been for heavy industry.

(4) Financial Terms and Conditions of Economic Assistance

Outright grants account for only a very small share of Soviet and Eastern European aid to the LDCs (less than five

²⁷DAC, 1975 Review, Chart 1, p. 133, and Statistical Annex, Table 17, p. 217.

²⁸Fogarty, "China's Economic Relations", p. 734; OECD, Flow of Resources, p. 413; and USDS, Aid and Trade in 1974, p. 6.

²⁹DAC, 1972 Review, Statistical Annex, Table 12, p. 228.

per cent), but make up a substantial amount of assistance to other CPCs.³⁰ They play a larger role in the Chinese aid programme: about 15 per cent of aid to the LDCs and more than one-half of aid to other CPCs has been extended in the form of grants. For the DMCs on average, grants accounted for 65 per cent of total commitments in 1974, varying from 26 per cent for Austria and 27 per cent for Japan to 99 per cent for Australia and 100 per cent for Norway.³¹

Soviet aid commitments usually carry an interest rate of 2.5-3.0 per cent and a repayment period of 12 years. The terms of Eastern European loans have on average been harder than those of the USSR. The grace period applicable to Soviet and Eastern European assistance is usually only one year, commencing a year after completion of the aid project or delivery of goods.³² The DMCs normally extend their development loans on softer terms than the USSR and the Eastern European countries. On average, DMC loans in 1973 carried an interest rate of 2.4 per cent, with a grace period of eight years, and a total maturity of 32 years.

³⁰OECD, Flow of Resources, pp. 407, 415-416; UN, World Economic Survey, 1974, Part One, pp. 176-177; USDS, Aid and Trade in 1974, Appendix, Table 1, n. 1.

³¹DAC, 1975 Review, Table VII-4, p. 134, and Statistical Annex, Table 18, pp. 218-219.

³²OECD, Flow of Resources, pp. 407, 415-416; UN, World Economic Survey, 1974, Part One, pp. 176-177; USDS, Aid and Trade in 1974, p. 6.

However, the overall average conceals a widely differing performance among individual donors. For example, the terms of Italian loans specify an interest rate of 4.3 per cent, a grace period of four years, and a total maturity of 15 years, while Canadian loans are extended at 0.1 per cent interest, 10 years grace, and 49 years maturity.³³ Chinese loan terms are more liberal than those of both the other CPC donors and the DMC average. In the 1960s, the PRC's loans were usually free of interest, with a grace period of 10 years, and a total maturity of 20 years. In the 1970s, China has softened the already liberal terms of the loans to the LDCs: longer grace periods have been allowed (20-30 years) and the maturities have often been longer than before (40-60 years).

The grant element reflects the financial terms of a transaction, i.e. the interest rate, grace period, and maturity. Thus, it measures the concessionality or softness of a loan, in the form of the present value of an interest rate below the market rate over the life of a loan. Assuming a market rate of 10 per cent, Soviet loans would have a grant

³³DAC, 1975 Review, Table VII-4, p. 134, and Statistical Annex, Table 18, pp. 218-219.

element of about 45 per cent.³⁴ Since grants (which, of course, have a grant element of 100 per cent) account for less than five per cent of Soviet commitments, the total grant element of Soviet aid to the LDCs is no more than 48 per cent; and the grant element of Eastern European assistance is even less. The grant element of loans extended by the DMCs, on the other hand, was 63 per cent in 1973 and 60 per cent in 1974. Taking into account the high proportion of grant aid, the overall grant element for the DMCs was 88 per cent in 1973 and 86 per cent in 1974. The results vary from 49 per cent in the case of Austria to 100 per cent for Norway. The grant element of Chinese loans increased from about 75 per cent in the 1960s to almost 95 per cent in the 1970s. Including grants to the developing countries, the overall grant element of Chinese aid was over 95 per cent.

Chinese aid, like Soviet and Eastern European aid, is almost exclusively tied to the procurement of goods and services in the donor country (including even multilateral contributions) and is usually repaid in local goods. The

³⁴The grant elements mentioned in this paragraph are calculated on the basis of the terms specified in the preceding paragraph. The calculation of the grant element of Soviet and Eastern European loans, however, is complicated by the fact that the grace period depends not on the commitment date (as with loans extended by China and the DMCs), but on the actual disbursement of funds. Therefore, the grant element of Soviet loans is based on the following: a 2.5 per cent rate of interest, the completion of the project in three years after the agreement, and repayments over 12 years starting one year after completion.

DMCs, on the other hand, have taken steps in recent years to relax their tying procedures. In 1973, for example, they agreed to untie their multilateral contributions, and in 1974 a number of them agreed to untie their bilateral loans to allow procurement in the developing countries. These loans are normally repaid in hard currency.

The Chinese take a flexible attitude toward local cost financing. Their loan agreements usually provide for long-term financing to cover the local cost component of Chinese aid projects, using the proceeds of sales of Chinese goods on the recipient's domestic market. As a general rule, the USSR finances only the foreign currency portion of its aid projects, although exceptions have been made in favour of the least-developed countries in Africa, and it rarely provides goods to be sold domestically to raise the local currency. The principle of providing assistance primarily for direct foreign exchange needs remains generally applied by the DMC donors as well. However, in recent years most of them have indicated a willingness to participate in the financing of a given proportion of local currency costs where the need for it can be clearly demonstrated, such as in the case of the poorer developing countries.

(5) Technical Assistance

Tables 35-38 compare China's technical assistance programme in 1972-1973 to the other major aid donors. The

TABLE 35

CHINA'S TECHNICAL ASSISTANCE COMPARED TO DMC DONORS,^a 1972

Country ^b	Number of DMC Economic Technicians in the LDCs	Number of LDC Technical Trainees in the DMCs	Number of LDC Academic Students in the DMCs
France	34,802	4,904	8,888
United Kingdom	16,341	4,590	9,210
United States	13,210	6,336	9,933
West Germany	7,235	9,028	5,391
Japan	3,588	3,937	674
Belgium	3,482	1,765	2,271
Canada	2,938	849	1,619
Netherlands	2,338	431	2,147
Italy	1,356	420	1,246
Australia	1,264	1,288	1,906
Denmark	1,092	364	68
Switzerland	981	594	279
Sweden	670	1,550	43
Norway	554	90	292
Austria	365	61	204
New Zealand	242	343	904
Finland	140	299	54
DMC Average	5,329	2,168	2,655
China	22,165	--	--

Sources: China: Table 37, p. 307, of this thesis. DMC Donors: OECD, DAC, Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee: 1975 Review (Paris: OECD, 1975), Statistical Annex, Table 41, pp. 248-249.

^aIncludes the 17 DAC member countries only.

^bRanked in order of number of economic technicians in the LDCs.

TABLE 36

CHINA'S TECHNICAL ASSISTANCE COMPARED TO DMC DONORS,^a 1973

Country ^b	Number of DMC Economic Technicians in the LDCs	Number of LDC Technical Trainees in the DMCs	Number of LDC Academic Students in the DMCs
France	34,740	5,114	9,405
United Kingdom	14,688	5,744	9,258
United States	12,119	5,032	9,596
Australia	10,299	1,546	2,887
West Germany	7,117	18,719	5,523
Japan	3,497	4,993	750
Belgium	3,309	1,229	6,357
Canada	2,860	853	1,392
Netherlands	2,363	446	2,677
Italy	1,565	509	1,185
Denmark	1,077	280	41
Switzerland	982	552	248
Sweden	657	1,489	38
Norway	516	122	302
Austria	374	188	376
New Zealand	195	339	794
Finland	168	228	49
DMC Average	5,678	2,787	2,993
China	23,540	--	100

Sources: China: Table 38, p. 308, of this thesis. DMC Donors: OECD, DAC, Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee: 1975 Review (Paris: OECD, 1975), Statistical Annex, Table 42, pp. 250-251.

^aIncludes the 17 DAC member countries only.

^bRanked in order of number of economic technicians in the LDCs.

TABLE 37

CHINA'S TECHNICAL ASSISTANCE COMPARED TO OTHER CPC DONORS, 1972

Country	Number of CPC Economic Technicians in the LDCs	Number of LDC Technical Trainees in the CPCs	Number of LDC Academic Students in the CPCs
USSR	11,200	1,355	14,500
Eastern Europe ^a	5,930	975	9,565
China	22,165	--	--

Sources: USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1974, Report No. 298, January 27, 1976, pp. 9-11, and Appendix, Tables 5-6; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1973, Research Study, INR RS-20, October 10, 1974, pp. 9-12, and Appendix, Tables 6-7; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1972, Research Study RECS-10, June 15, 1973, pp. 9-12, and Appendix, Tables 6-8.

^aConsists of Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.

TABLE 38

CHINA'S TECHNICAL ASSISTANCE COMPARED TO OTHER CPC DONORS, 1973

Country	Number of CPC Economic Technicians in the LDCs	Number of LDC Technical Trainees in the CPCs	Number of LDC Academic Students in the CPCs ^a
USSR	13,095	2,600	15,785
Eastern Europe ^b	7,325	1,115	10,415
China	23,540	--	100

Sources: USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1974, Report No. 298, January 27, 1976, pp. 9-11, and Appendix, Tables 5-6; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1973, Research Study INR RS-20, October 10, 1974, pp. 9-12, and Appendix, Tables 6-7; USDS, Bureau of Intelligence and Research, Communist States and Developing Countries: Aid and Trade in 1972, Research Study RECS-10, June 15, 1973, pp. 9-12, and Appendix, Tables 6-8.

^aThe number of LDC students in the USSR and Eastern Europe was estimated by assuming the same percentage distribution as in 1972, i.e. 60 per cent in the USSR and 40 per cent in Eastern Europe.

^bConsists of Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.

number of Chinese technicians in the LDCs increased to 23,540 in 1973, which is greater than the number of US or Soviet technicians employed in the LDCs, and next to only France. The other donors also accept large numbers of LDC trainees and students in their countries as part of their technical assistance programmes. In contrast, only 750 LDC technical personnel have trained in China (none in recent years) and about 700 LDC students had studied in China at the time Chinese universities were closed to foreigners in 1966. Since the universities were re-opened in 1970, the PRC has allowed only about 100 Tanzanian and Zambian students to enter China for studies related to the Tan-Zam Railroad, except in 1974 when acceptance was broadened to include a small number of other entrants.

(6) Trade with the LDCs

Tables 39-42 compare China's trade with the LDCs in 1972-1973 to the other major trading nations. In absolute terms, the volume of Chinese trade with the LDCs is not large relative to the performance of countries such as the United States, Japan, West Germany, France, and the United Kingdom, or even the USSR. However, more meaningful figures are obtained by expressing the value of exports to and imports from the LDCs as a proportion of total exports and total imports, respectively, for each country. The results demon-

TABLE 39
CHINA'S TRADE WITH THE LDCs COMPARED TO DMCs,^a 1972

Country ^b	Exports to LDCs		Imports from LDCs		Trade Balance ^c with LDCs	
	Millions of US Dollars	Per Cent of Total Exports	Millions of US Dollars	Per Cent of Total Imports	Millions of US Dollars	Per Cent of Exports to LDCs
United States	14,290	28.7	14,221	25.6	69	0.5
Japan	11,014	38.5	9,820	41.8	1,194	10.8
West Germany	5,298	11.5	6,145	15.5	-847	-16.0
United Kingdom	5,002	20.6	5,574	20.0	-572	-11.4
France	4,577	17.7	5,370	20.1	-793	-17.3
Italy	2,711	14.6	4,233	22.0	-1,522	-56.1
Netherlands	1,606	9.3	3,180	18.4	-1,574	-98.0
Australia	1,324	21.0	587	12.9	737	55.6
Canada	1,297	6.4	1,622	8.6	-325	-25.0
Belgium ^d	1,158	7.2	1,781	11.4	-622	-53.7
Switzerland	1,045	15.2	547	6.5	498	47.6
Sweden	835	9.5	781	9.7	53	6.4
Denmark	407	9.4	520	10.4	-113	-27.7
Norway	332	10.1	378	8.7	-46	-13.9
New Zealand	274	15.3	213	14.0	61	22.2
Austria	271	7.0	338	6.5	-67	-24.9
Finland	156	5.3	209	6.5	-53	-34.1
DMC Average	3,035	18.1	3,266	19.5	-231	-7.6
China	1,275	41.3	630	22.2	645	50.6

TABLE 39--CONTINUED

Source: China: Table 16, p. 170, of this thesis. DMCs: UN, Department of Economic and Social Affairs, Yearbook of International Trade Statistics, 1974, Vol. I (New York: UN, 1975), Country Tables, various pages.

^aExports and imports are shown f.o.b. and c.i.f., respectively, except for Australia, Canada, and the United States which report both exports and imports f.o.b.

^bRanked according to volume of exports to LDCs.

^cA negative sign indicates a trade deficit. Otherwise, the figures indicate a surplus.

^dIncludes Luxembourg.

TABLE 40

CHINA'S TRADE WITH THE LDCs COMPARED TO DMCs,^a 1973

Country ^b	Exports to LDCs		Imports from LDCs		Trade Balance ^c with LDCs	
	Millions of US Dollars	Per Cent of Total Exports	Millions of US Dollars	Per Cent of Total Imports	Millions of US Dollars	Per Cent of Exports to LDCs
United States	20,321	28.5	20,159	29.0	162	0.8
Japan	15,834	42.9	16,140	42.1	-306	-1.9
West Germany	7,824	11.6	9,133	16.8	-1,309	-16.7
France	6,413	18.0	7,408	20.0	-995	-15.5
United Kingdom	5,687	18.6	8,045	20.7	-2,359	-41.5
Italy	3,156	14.2	6,295	22.7	-3,139	-99.5
Netherlands	1,988	8.3	4,540	19.1	-2,552	-128.4
Australia	1,668	17.9	972	14.3	696	41.7
Belgium ^d	1,666	7.4	2,608	11.9	-942	-56.5
Canada	1,572	6.2	2,138	9.2	-566	-36.0
Switzerland	1,460	15.4	861	7.4	599	41.0
Sweden	1,120	9.2	989	9.3	131	11.7
Norway	657	14.0	549	8.8	108	16.5
Denmark	532	8.9	752	9.8	-221	-41.5
New Zealand	364	14.2	283	12.9	81	22.2
Austria	355	6.7	477	6.7	-122	-34.4
Finland	250	6.7	290	6.9	-40	-16.0
DMC Average	4,169	18.2	4,802	20.9	-634	-15.2
China	2,095	42.8	815	16.4	1,280	61.1

TABLE 40--CONTINUED

Source: China: Table 16, p. 170, of this thesis. DMCs: UN, Department of Economic and Social Affairs, Yearbook of International Trade Statistics, 1974, Vol. I (New York: UN, 1975), Country Tables, various pages.

^aExports and imports are shown f.o.b. and c.i.f., respectively, except for Australia, Canada, and the United States which report both exports and imports f.o.b.

^bRanked according to volume of exports to LDCs.

^cA negative sign indicates a trade deficit. Otherwise, the figures indicate a surplus.

^dIncludes Luxembourg.

TABLE 41

CHINA'S TRADE WITH THE LDCs COMPARED TO OTHER CPCs,^a 1972

Country	Exports to LDCs		Imports from LDCs		Trade Balance ^b with LDCs	
	Millions of US Dollars	Per Cent of Total Exports	Millions of US Dollars	Per Cent of Total Imports	Millions of US Dollars	Per Cent of Exports to LDCs
USSR	2,099	13.7	1,857	11.6	243	11.6
Eastern Europe:						
Bulgaria	166	6.3	111	4.3	55	33.0
Czechoslovakia	435	8.8	316	6.8	119	27.3
East Germany	248	4.0	182	3.1	65	26.4
Hungary	185	5.6	203	6.4	-18	-9.9
Poland	281	5.7	256	4.8	25	8.9
Romania	196	7.5	167	6.4	29	15.0
Average	252	6.2	206	5.1	46	18.2
China	1,275	41.3	630	22.2	645	50.6

Source: China: Table 16, p. 170, of this thesis. USSR and Eastern Europe: UN, Department of Economic and Social Affairs, Yearbook of International Trade Statistics, 1974, Vol. I (New York: UN, 1975), Country Tables, various pages.

^aBoth exports and imports are reported f.o.b., except for Hungary and China, where imports are shown c.i.f.

^bA negative sign indicates a trade deficit. Otherwise, the figures indicate a surplus.

TABLE 42

CHINA'S TRADE WITH THE LDCs COMPARED TO OTHER CPCs,^a 1973

Country	Exports to LDCs		Imports from LDCs		Trade Balance ^b with LDCs	
	Millions of US Dollars	Per Cent of Total Exports	Millions of US Dollars	Per Cent of Total Imports	Millions of US Dollars	Per Cent of Exports to LDCs
USSR	2,753	12.8	2,926	13.9	-173	-6.3
Eastern Europe:						
Bulgaria	212	6.4	156	4.8	55	26.2
Czechoslovakia	469	7.8	444	7.2	25	5.3
East Germany	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hungary	232	5.2	282	7.1	-50	-21.5
Poland	316	4.9	308	4.0	8	2.5
Romania	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China	2,095	42.8	815	16.4	1,280	61.1

SUMMARY AND CONCLUSIONS

Source: China: Table 16, p. 170, of this thesis. USSR and Eastern Europe: UN, Department of Economic and Social Affairs, Yearbook of International Trade Statistics, 1974, Vol. I (New York: UN, 1975), Country Tables, various pages.

^aBoth exports and imports are reported f.o.b., except for Hungary and China, where imports are shown c.i.f.

^bA negative sign indicates a trade deficit. Otherwise, the figures indicate a surplus.

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strate the importance of the LDCs in total Chinese trade, compared to their position in the total trade of other countries. For example, exports to the LDCs accounted for 43 per cent of Chinese exports in 1973. This ratio was higher than for any other country, except Japan. In the same year, imports from the LDCs composed 16 per cent of Chinese imports, which is slightly less than the DMC average (21 per cent) and above the comparable ratios for the USSR and Eastern European countries. The PRC's surplus on its LDC trade amounted to over 60 per cent of its exports to the LDCs in 1973--far exceeding the percentages for other countries.

4. Conclusions

The stated purpose of this thesis was to assess China's aid-giving performance by evaluating the volume, geographic distribution, composition, financial terms and conditions, and motivation of China's economic and technical assistance to the developing countries from 1953 to 1974, by estimating the real cost or burden of these aid flows on the Chinese economy, and by comparing the results of these investigations to the aid programmes and policies of other donors. This objective has now been accomplished. Thus, it seems appropriate to end this thesis with a few concluding remarks about China's aid programmes and policies.

The overall impression is that Chinese aid has played a relatively minor role, in terms of the absolute size of China's aid programme, in the international effort to reduce the degree of poverty and deprivation in the developing countries and to assist in the promotion of their economic development, especially when compared to traditional donors such as France and the United States. Furthermore, it seems that a greater aid effort is not beyond the capacity of the Chinese economy. Nevertheless, China's aid-giving performance is remarkable when one considers that the per capita GNP of the PRC is less than 1/25th that of the United States, the world's largest aid donor; yet China sacrifices just a slightly smaller proportion of its national product for aid contributions than does the United States. Moreover, China extends its assistance on liberal terms that would embarrass other CPC donors, such as the Soviet Union and the Eastern European countries, and even many of the DMCs.

Therefore, it is clear that there are some lessons to be drawn from China's experience as an aid donor during the last quarter-century. They are offered as a conclusion to this thesis, in a series of 23 brief postulates:

(1) The period since the end of the Second World War, and especially since the start of the First UN Development Decade in 1960, has witnessed an increased consciousness in the developed countries of the mass poverty and deprivation that is a routine part of the everyday life of the majority

of the world's people. Accordingly, most of the developed nations have participated in a co-ordinated effort to alleviate this poverty and deprivation, which has resulted in a transfer of resources on concessional terms to the developing countries on a scale unprecedented in the history of the world. Although international development assistance has produced some results, these results are small when compared to the objectives still to be achieved.

(2) International co-operation has not been limited to development assistance, but has been applied to commercial trade flows as well. In general, the LDCs have benefited from the liberalizing trend in the trade policies of the developing countries, in particular the reduction of tariffs and other trade barriers resulting from the Kennedy Round of GATT trade negotiations and the implementation of the GSP. Nevertheless, their share of world exports is still decreasing.

(3) China's overall economic policy has fluctuated widely between 1949 and the present day. Two periods of social and political upheaval--the Leap Forward in the 1950s and the Cultural Revolution in the 1960s--have temporarily thrown economic policy into disarray and have interrupted the momentum of economic growth. For the period as a whole, however, the Chinese economy has experienced strong but erratic growth, averaging an annual increase of six per cent.

(4) Although the PRC is a relatively closed economy, China's foreign trade is still an integral part of the centrally planned economy and an important ingredient in China's programme to transform itself into a modern industrial nation. It has followed closely the trends in the Chinese economy as a whole and has grown at an average annual rate of nine per cent.

(5) Foreign aid became a permanent feature of the Chinese economy in the mid-1950s, at a time when China was still receiving substantial amounts of economic assistance from the USSR. By the end of 1974, the PRC had extended over six billion dollars of economic assistance to 47 LDCs and seven CPCs, and at least 1.5 billion dollars of military assistance.

(6) Despite a per capita income less than many of the LDCs, China committed 3,532 million dollars of economic aid to the LDCs between 1956 and 1974. Over two-thirds of the total extensions, or 2,447 million dollars, have been made available since 1970.

(7) More than one-half of China's economic aid to the LDCs has gone to African nations. Furthermore, over one-quarter of the total went to only three countries--Pakistan, Tanzania, and Zambia--and more than 10 per cent was committed to a single project, the Tan-Zam Railroad.

(8) China also maintains an extensive aid programme in other CPCs. Since 1953, the PRC has extended at least

2,654 million dollars of economic assistance to these countries. The annual level of new commitments has not fluctuated as much as in the case of China's aid programme in the LDCs, 840 million dollars have been made available since 1970.

(9) The geographic distribution of China's aid programme in the CPCs has been even more concentrated than its parallel programme in the LDCs. China has extended 2.7 billion dollars of economic assistance to only seven CPC recipients (about 380 million dollars per country), compared to 3.5 million dollars to 47 LDC recipients (only 75 million dollars per country). Moreover, one country alone--North Vietnam--accounts for over one-half of total commitments to the CPCs.

(10) On the surface, China's economic aid programme appears to be a six billion dollar operation. However, economic aid actually cost the Chinese economy something less than this, perhaps 3.6-3.9 billion dollars, of which 1.4-1.7 billion dollars represent aid to the LDCs and 2.1-2.2 billion dollars represent aid to other CPCs.

(11) In 1974, net disbursements of Chinese aid totalled an estimated 390 million dollars, representing 0.17 per cent of GNP. In comparison, net disbursements of aid by the United States amounted to 3,439 million dollars, or 0.25 per cent of GNP. If only aid to the LDCs is included, Chinese net disbursements came to 300 million dollars (0.13

per cent of GNP), compared to Soviet net disbursements of 550 million dollars (0.09 per cent of GNP). China's aid effort is even more impressive if one accounts for aid-giving capacity: the PRC had a per capita GNP in 1974 of only 243 dollars, compared to 6,595 dollars for the United States and 2,300 dollars for the USSR.

(12) Technical assistance is an important part of China's aid programme. In 1973, there were more Chinese technicians (23,540) working in the LDCs than Soviet or US technicians (13,095 and 12,119, respectively). Only France sent abroad more experts than the PRC (34,740). In contrast to other donors, the Chinese have permitted very few technical trainees or academic students to train or study in China.

(13) Since 1964, China's aid policy has been governed by "Eight Principles" which are sometimes regarded as a model for other aid donors. They state, "inter alia", that Chinese aid is based on equality and mutual benefit, and respect of the recipient's political sovereignty, and that it encourages self-reliance and independence of the recipient's economy.

(14) While the importance of the humanitarian motive for the PRC's decision to extend foreign aid should not be underestimated, it is certainly not the whole case. Self-serving motives, notably political and economic interests

based on narrow nationalistic goals, have played a considerable role in Chinese aid policy.

(15) Chinese aid has been motivated to a great extent by political interests. Foreign aid represents a valuable instrument of the PRC's overall foreign policy and appears to be the most effective tool available for expanding and consolidating its influence in recipient countries and for countering that of other major powers.

(16) Economic self-interest has also been a powerful influence on Chinese aid. China must import from the DMCs the high technology products which it desperately needs for the continuation of its industrial expansion. This seems only possible if the PRC can earn the foreign exchange to purchase these goods by maintaining its large trade surplus with the LDCs.

(17) China's aid programme has helped to stimulate the expansion of its trade with the LDCs. Between 1960 and 1974, China's exports to the LDCs increased at an annual average rate of 14 per cent, compared to a nine per cent growth rate for total Chinese exports and 12 per cent for China's imports from the LDCs. In 1973, exports to the LDCs accounted for 43 per cent of total Chinese exports--higher than the corresponding ratio for any other country, except Japan--and imports from the LDCs comprised 16 per cent of total Chinese imports--near the average for most countries.

(18) Chinese aid is almost entirely bilateral; about two-thirds has been extended for aid projects in the transportation, light industrial, and agricultural sectors. In comparison, Soviet aid is almost all bilateral, of which more than 95 per cent is project assistance. Bilateral assistance represents almost three-quarters of total DMC aid; less than one-half is for projects.

(19) Outright grants account for about 15 per cent of China's aid to the LDCs and more than one-half of aid to other CPCs, compared to less than five per cent of Soviet aid to the LDCs and 65 per cent of DMC aid. Chinese loans in the 1960s were free of interest, with a grace period of 10 years, and a total maturity of 20 years. In the 1970s, the already liberal terms were softened further to allow longer grace periods (up to 30 years) and maturities (up to 60 years). In comparison, Soviet loans normally carry an interest rate of 2.5-3.0 per cent and a repayment period of 12 years, commencing a year after completion of the aid project or delivery of goods. The average terms of loans extended by the DMCs specify 2.4 per cent interest, eight years grace, and 32 years maturity.

(20) Chinese aid, like Soviet and Eastern European aid, is almost exclusively tied to procurement in the donor country and is usually repaid in local goods. The DMCs, on the other hand, have untied their multilateral contributions and some have partially untied their bilateral loans, which

are normally repaid in hard currency. China's attitude toward local cost financing is more flexible than that of most other donors.

(21) Although China is a developing country itself and has a low per capita GNP, it still has the economic capacity to sustain and increase its aid volume in absolute dollar terms and in relation to GNP. Given the small role which aid currently plays in the Chinese economy, a gradual increase in the percentage of GNP devoted to foreign aid would not involve much of a burden on the Chinese economy and would constitute a very modest claim on the likely increment in national product and domestic consumption.

(22) In the short term, the volume of Chinese aid will be determined by China's interpretation of its aid-giving capacity and by its assessment of the impact of current economic events on this capacity. On the basis of recent commitments, it seems likely that actual disbursements of aid will remain at historically high levels in the next few years. The long-term prospects for the Chinese aid programme will depend largely on the attitudes of the Chinese leadership toward the aid effort and on which of the motives for aid-giving--humanitarian, political, or economic--will receive the greatest attention. Thus, the volume of new aid commitments will probably fluctuate with political and economic changes both inside and outside the PRC.

(23) Because of its low per capita income, China's aid programmes and policies serve as an example to both developed and developing countries alike. For the developed countries, particularly the CPCs, it might spur them on to increase their aid levels and to improve their terms of aid. To the developing countries, especially the richer of them, it will show that the responsibility for helping others must be shared by all nations.

APPENDIX A

SOURCES OF CHINESE ECONOMIC DATA

The following is an excerpt of a paper written by Nai-Ruenn Chen for the Joint Economic Committee of the United States Congress:¹

The sources of Chinese economic information stem from both inside and outside China. The amount of such information available has varied over time. During the 1950's qualitative and quantitative economic data were relatively abundant. Subsequently, however, they dwindled in amount until the end of the 1960's. During this period the Chinese government adopted a policy of statistical secrecy while only isolated scraps of qualitative information were published. Since 1970 the publication policy seems to have been relaxed, but the amount of statistics released is not as plentiful as that in the 1950's. Some of these released statistics are relative numbers without an absolute figure for the base, and certain types of data, which were available for the 1950's, have been withheld from publication.

The quality of Chinese data varies for different periods of time and for different economic sectors. In general, Chinese statistics are believed to be internally consistent in view of the close correlation, as demonstrated in a number of studies, between aggregate and disaggregated data, between figures published for different periods of time, and between quantitative and qualitative data.

Internal consistency of published Chinese statistics does not appear to be the result of outright fabrication. There is no evidence to suggest that the central author-

¹Nai-Ruenn Chen, "An Assessment of Chinese Economic Data: Availability, Reliability, and Usability", in China: A Reassessment of the Economy, by US Congress, Joint Economic Committee (Washington, D.C.: US Government Printing Office, 1975), pp. 67-68.

ities practice deliberate falsification under double bookkeeping. Several considerations indicate the contrary. It is difficult to envisage how a vast country like China with a statistical working force deficient in both quantity and quality could maintain two sets of national statistics, one for planning and the other for propaganda, without outside detection. A double bookkeeping system would certainly cause confusion among cadres at lower levels and mislead them in making economic decisions. The Chinese Government seems to have adopted a policy of selective publication, withholding information on unfavorable developments and failures, and, therefore, deliberate falsification under double bookkeeping would not be necessary. Also, some of the published Chinese statistics appear to be consistent with the information derived from non-Chinese sources.

Statistical fabrication, however, was and probably still is, practiced by lower administrative echelons. This has affected the quality of Chinese statistics even with corrective measures taken by the central authorities. The general usability of Chinese statistics is limited further by a number of methodological deficiencies and certain peculiar practices.

One of the major difficulties with Chinese statistics has to do with the definition of concepts, coverage, and classification. They are often left unexplained. To the extent that they were explained, they were sometimes defined in a peculiar way. Frequently, definitional changes were made without corresponding corrections to the data. In some of the time series data, widely heterogeneous components were grouped together and treated as if they were homogeneous.

Chinese official indexes suffer from many defects. Major defects of the industrial production index, for example, relate to, among other things, the use of gross value output, the choice of price weights, and the treatment of new products. These methodological defects are aggravated further by the tendency to use a low base in order to provide the most favorable impression possible. For the same purpose, statistics reflecting poor performance are usually withheld. For example, the growth rates of various industrial products, for which data were published in the last few years, were as a rule higher than the growth rates of total industrial output.

The usability of Chinese statistics is also hampered by the imprecise way in which the figures were released.

Terms such as "nearly," "less than" and "more than" are frequently shown in connection with the published figures, and the base year for indexes is sometimes not precisely specified. Occasionally, more than two different figures were published for the same indicator, and usually no explanation is given as to the discrepancies.

In sum, Chinese statistics in terms of their availability, reliability, and usability are fraught with problems and difficulties. From the vantage point of 1975, the First Five-Year Plan (1953-57), particularly the latter half of it, may be viewed as a golden period for Chinese statistics, although in those years published Chinese data were by no means plentiful or of high quality by the standards of advanced countries. Being kept in statistical darkness for a decade, economic researchers on China in the 1960's were nearly desperate as they reached the point of no return. The gradual resumption of some statistical outflows from China since 1970 has opened new research possibilities. To be sure, there are many deficiencies and pitfalls in Chinese statistics, particularly those published in recent years. With patience, care, and ingenuity one could construct certain meaningful estimates on the basis of the statistics that China has so far made public.

APPENDIX B

THE COMPUTATION OF GRANT ELEMENT

The concept of "grant element" was defined in Chapter I of this thesis (p. 26, n. 23) and was used in Chapters IV (pp. 217-218) and V (pp. 275-278). Furthermore, the concept has been discussed in several other places: see, for example, OECD, The Flow of Financial Resources to Less-Developed Countries, 1961-1965 (Paris: OECD, 1967), pp. 140-146, 192-196; and Goran Ohlin, Foreign Aid Policies Reconsidered (Paris: OECD, 1966), Annex, pp. 101-112. This appendix is restricted to the purely technical aspects of computation.

The grant element of a loan is its face value minus the "present value" of the service payments. It may be expressed either as an absolute amount (referred to as "grant equivalent") or as a percentage of face value. The fundamental idea behind discounting the service payments is that 100 dollars now is preferable to 100 dollars only available in the future. If today's 100 dollars can be invested at a yield of 10 per cent, in one year it will have become 110 dollars, in two years 121 dollars, and in "i" years $100 \times (1 + 0.10)^i$ dollars. Thus, assuming an interest rate or "rate of discount" of 10 per cent, 110 dollars to be received in one year is equivalent to 100 dollars today, as is 121

dollars to be received in two years, and $100 \times (1.1)^i$ dollars in i years. A borrower who obtains 101 dollars upon a promise to repay 110 dollars in one year is actually receiving a kind of grant, since the 110 dollars he repays 12 months later has a present value of only 100 dollars. In other words, the loan carries a grant element of one dollar or one per cent.

Of course, repayment patterns are more complicated than this, but by using the fact that the present value of an amount X to be received i years in the future is $X/(1.1)^i$, it is possible to calculate the present value of each service payment on a loan and to relate this to its face value. The formula for percentage grant element is:

$$100 \times \left[\frac{F - \sum_{i=1}^{i=n} \frac{X_i}{(1.1)^i}}{F} \right]$$

where F = face value of the loan,

X_i = service payments on the loan in the i th year in the future,

n = year in which the final payment is made.

By convention, the Development Assistance Committee of the OECD uses a discount rate of 10 per cent. A different rate could be used (a lower rate lowers grant elements and a higher rate raises them), but the actual discount rate chosen is neutral as regards the technical aspects of grant element

calculations.

Table B.1 shows the calculation of grant element as it would be done manually. The grant element of each loan must be worked out individually. For long maturity loans, there are many service payments to be discounted and manual calculation becomes exceedingly tedious and time-consuming. Accordingly, the OECD prepared tables from which the percentage grant element corresponding to various combinations of interest rates, grace periods, and maturities can be read off directly. A sample page is shown here as Table B.2.

These tables provide for both annual and semiannual payments, and duplicate the manual computation process shown in Table B.1. The formula used to compute the grant elements in Table B.2 is:

$$GE = 100 \times \left(1 - \frac{r/a}{d}\right) \left[1 - \frac{\frac{1}{(1+d)^{aG}} - \frac{1}{(1+d)^{aM}}}{d(aM - aG)} \right]$$

where GE= grant element as a percentage of the face value of a loan,

r= annual interest rate,

a= number of payments per year,

d= discount rate per period, i.e. $(1.1)^{\frac{1}{a}} - 1$, which gives a compound annual rate of 10%,

G= grace period, i.e. the interval to first repayment minus one payment period,

M= maturity.

Repayment is assumed to be in equal payments of principal.

TABLE B.1
CALCULATION OF THE GRANT ELEMENT OF A LOAN:
MANUAL METHOD

Year	Payment of Principal	Interest	Total Service Payment	(1.1) ⁱ Discount Factor	Present Value of Service Payment
(1)	(2)	(3)	(2)+(3)=(4)	(5)	(4)/(5)=(6)
1	--	0.36	0.36	1.100	0.327
2	--	0.36	0.36	1.210	0.298
3	--	0.36	0.36	1.331	0.270
4	--	0.36	0.36	1.464	0.246
5	--	0.36	0.36	1.611	0.224
6	--	0.36	0.36	1.772	0.203
7	--	0.36	0.36	1.949	0.185
8	2.0	0.36	2.36	2.144	1.101
9	2.0	0.34	2.34	2.358	0.992
10	2.0	0.32	2.32	2.594	0.894
11	2.0	0.30	2.30	2.853	0.806
12	2.0	0.28	2.28	3.138	0.727
13	2.0	0.26	2.26	3.452	0.655
14	2.0	0.24	2.24	3.797	0.590
15	2.0	0.22	2.22	4.177	0.531
16	2.0	0.20	2.20	4.595	0.479
17	2.0	0.18	2.18	5.054	0.431
18	2.0	0.16	2.16	5.560	0.388
19	2.0	0.14	2.14	6.116	0.350
20	2.0	0.12	2.12	6.727	0.315
21	2.0	0.10	2.10	7.400	0.284
22	2.0	0.08	2.08	8.140	0.256
23	2.0	0.06	2.06	8.954	0.230
24	2.0	0.04	2.04	9.850	0.207
25	2.0	0.02	2.02	10.835	0.186
Total	36.0	5.94	41.94	--	11.175

TABLE B.1--CONTINUED

$$\begin{aligned}
 \text{Grant Element} &= 100 \times \left[\frac{F - \sum_{i=1}^{i=n} \frac{X_i}{(1.1)^i}}{F} \right] \\
 &= 100 \times \left(\frac{36.000 - 11.175}{36.000} \right) \\
 &= 68.96\%
 \end{aligned}$$

where F = face value = \$36 million,

Maturity = 25 years, i.e. n = 25,

Grace Period = 7 years, i.e. 8 years to first repayment,

Interest Rate = 1%,

Repayments are made annually,

X_i = service payments on the loan in year i,

Discount Rate = 10%.

TABLE B.2

GRANT ELEMENT OF 25.0 YEAR LOAN WITH ANNUAL REPAYMENTS

INTEREST	INTERVAL TO FIRST REPAYMENT															
	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0	16.0
.00	63.69	65.97	68.08	70.04	71.87	73.57	75.15	76.62	77.99	79.26	80.45	81.56	82.59	83.55	84.45	85.29
.25	62.10	64.32	66.35	68.22	70.07	71.73	73.27	74.70	76.04	77.28	78.44	79.52	80.52	81.46	82.34	83.16
.50	60.51	62.67	64.67	66.54	68.28	69.89	71.39	72.79	74.09	75.30	76.43	77.48	78.46	79.38	80.23	81.03
.75	58.91	61.02	62.97	64.79	66.49	68.05	69.51	70.87	72.14	73.32	74.42	75.44	76.40	77.29	78.12	78.89
1.00	57.32	59.37	61.27	63.04	64.68	66.21	67.63	68.96	70.19	71.34	72.41	73.40	74.33	75.20	76.01	76.76
1.25	55.73	57.72	59.57	61.29	62.89	64.37	65.75	67.04	68.24	69.35	70.39	71.36	72.27	73.11	73.89	74.63
1.50	54.14	56.07	57.87	59.56	61.17	62.63	63.88	65.13	66.29	67.37	68.38	69.32	70.20	71.02	71.78	72.50
1.75	52.55	54.42	56.17	57.79	59.29	60.67	62.00	63.21	64.34	65.39	66.37	67.28	68.14	68.93	69.67	70.36
2.00	50.95	52.77	54.46	56.04	57.50	58.85	60.12	61.30	62.39	63.41	64.36	65.25	66.07	66.84	67.56	68.23
2.25	49.34	51.12	52.74	54.27	55.70	57.02	58.24	59.39	60.44	61.43	62.35	63.21	64.01	64.75	65.45	66.10
2.50	47.77	49.49	51.07	52.57	53.98	55.30	56.36	57.46	58.49	59.45	60.34	61.17	61.94	62.66	63.34	63.97
2.75	46.19	47.83	49.34	50.78	52.11	53.34	54.48	55.55	56.54	57.47	58.33	59.13	59.88	60.58	61.23	61.84
3.00	44.61	46.18	47.64	49.03	50.31	51.50	52.60	53.63	54.59	55.48	56.32	57.09	57.81	58.49	59.12	59.70
3.25	43.04	44.53	45.95	47.29	48.51	49.66	50.73	51.72	52.64	53.50	54.30	55.05	55.75	56.40	57.00	57.57
3.50	41.46	42.88	44.25	45.53	46.72	47.82	48.85	49.80	50.69	51.52	52.29	53.01	53.68	54.31	54.89	55.44
3.75	39.88	41.23	42.55	43.78	44.92	45.95	46.97	47.88	48.74	49.54	50.28	50.97	51.62	52.22	52.78	53.31
4.00	38.32	39.58	40.85	42.03	43.17	44.14	45.09	45.97	46.79	47.56	48.27	48.93	49.55	50.13	50.67	51.17
4.25	36.72	37.93	39.15	40.27	41.33	42.33	43.21	44.06	44.84	45.58	46.26	46.90	47.49	48.04	48.56	49.04
4.50	35.13	36.27	37.40	38.47	39.53	40.54	41.33	42.14	42.89	43.59	44.25	44.86	45.42	45.95	46.45	46.91
4.75	33.54	34.63	35.70	36.77	37.75	38.62	39.45	40.22	40.94	41.61	42.24	42.82	43.35	43.87	44.35	44.78
5.00	31.95	32.99	34.00	35.00	35.94	36.78	37.57	38.31	38.99	39.63	40.23	40.78	41.29	41.76	42.23	42.65
5.25	30.35	31.34	32.34	33.27	34.14	34.95	35.70	36.39	37.04	37.65	38.21	38.74	39.23	39.69	40.11	40.51
5.50	28.75	29.69	30.64	31.52	32.34	33.11	33.82	34.48	35.09	35.67	36.20	36.70	37.17	37.60	38.00	38.38
5.75	27.15	28.04	28.93	29.77	30.55	31.27	31.94	32.54	33.14	33.69	34.19	34.66	35.10	35.51	35.89	36.25
6.00	25.55	26.39	27.22	28.00	28.75	29.43	30.04	30.65	31.20	31.70	32.18	32.62	33.04	33.42	33.78	34.12
6.25	23.95	24.74	25.52	26.27	26.95	27.59	28.18	28.73	29.25	29.72	30.17	30.58	30.97	31.33	31.67	31.98
6.50	22.35	23.09	23.80	24.47	25.15	25.75	26.30	26.82	27.30	27.74	28.16	28.55	28.91	29.24	29.56	29.85
6.75	20.75	21.44	22.10	22.73	23.34	23.91	24.42	24.90	25.35	25.76	26.15	26.51	26.84	27.15	27.45	27.72
7.00	19.15	19.79	20.40	21.01	21.54	22.07	22.54	22.99	23.40	23.78	24.14	24.47	24.73	25.07	25.34	25.59
7.25	17.55	18.14	18.72	19.26	19.74	20.23	20.67	21.07	21.45	21.80	22.12	22.43	22.71	22.98	23.22	23.45
7.50	15.95	16.48	17.00	17.51	17.97	18.43	18.79	19.15	19.50	19.82	20.11	20.39	20.65	20.89	21.11	21.32
7.75	14.35	14.84	15.32	15.76	16.17	16.55	16.91	17.24	17.55	17.83	18.10	18.35	18.58	18.80	19.00	19.19
8.00	12.75	13.19	13.62	14.01	14.37	14.71	15.03	15.32	15.60	15.85	16.09	16.31	16.52	16.71	16.89	17.06
8.25	11.15	11.54	11.91	12.24	12.54	12.87	13.15	13.41	13.65	13.87	14.08	14.27	14.45	14.62	14.78	14.93
8.50	9.55	9.88	10.20	10.51	10.78	11.04	11.27	11.49	11.70	11.89	12.07	12.23	12.39	12.53	12.67	12.79
8.75	7.95	8.24	8.51	8.76	8.96	9.20	9.39	9.58	9.75	9.91	10.06	10.19	10.32	10.44	10.56	10.66
9.00	6.35	6.60	6.81	7.00	7.19	7.36	7.51	7.66	7.80	7.93	8.05	8.16	8.26	8.36	8.45	8.53
9.25	4.75	4.95	5.11	5.25	5.39	5.52	5.64	5.75	5.85	5.94	6.03	6.12	6.19	6.27	6.33	6.40
9.50	3.15	3.27	3.40	3.50	3.59	3.66	3.74	3.81	3.90	3.96	4.02	4.08	4.13	4.18	4.22	4.26
9.75	1.55	1.63	1.70	1.75	1.80	1.84	1.88	1.92	1.95	1.98	2.01	2.04	2.06	2.09	2.11	2.13
10.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00

APPENDIX B

This formula is based on the fact that the present value of the service payments of an equal principal payments loan is the sum of three factors (F = face value):

a) the present value of the interest paid during the grace period

$$\sum_{i=1}^{i=aG} \frac{\frac{r}{a} F}{(1+d)^i},$$

b) the present value of principal repayments

$$\sum_{i=aG+1}^{i=aM} \frac{\frac{F}{aM-aG}}{(1+d)^i},$$

c) the present value of interest paid after the grace period

$$\sum_{i=aG+1}^{i=aM} \frac{\frac{r}{a} F \left(1 - \frac{i-aG-1}{aM-aG}\right)}{(1+d)^i}.$$

The formula is the exact algebraic expansion of 100 times one minus the sum of these three factors divided by face value.

APPENDIX C

CHINA'S FOREIGN TRADE CORPORATIONS AND TRADE-RELATED ENTITIES

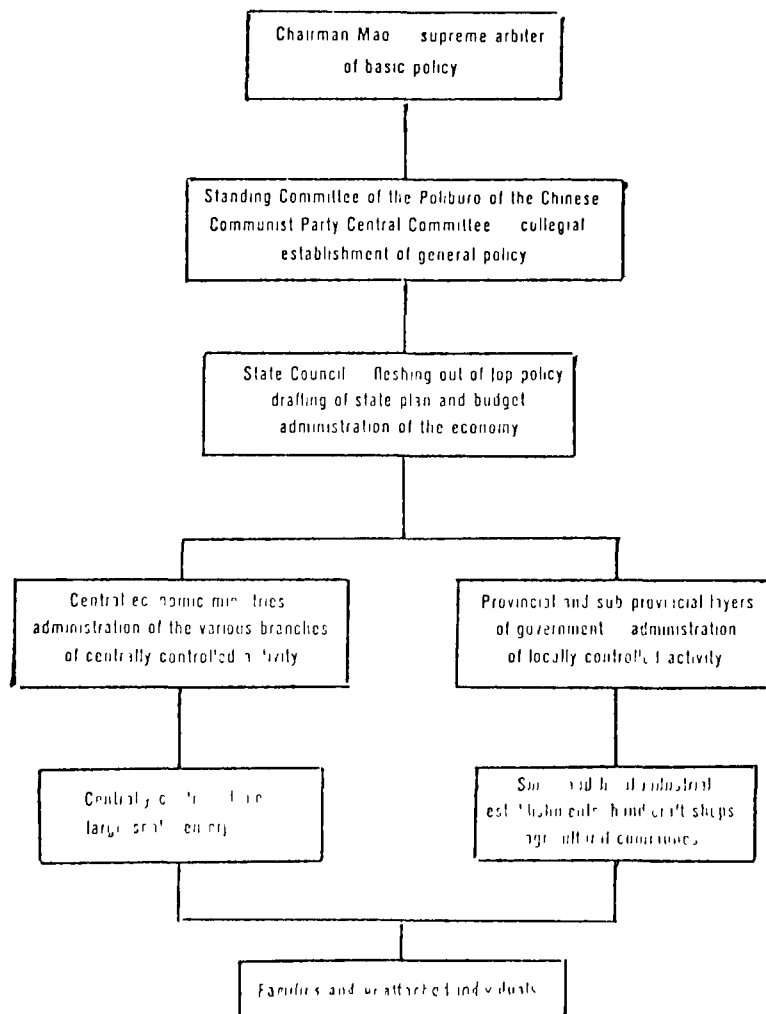
China's foreign trade corporations and main trade-related entities, and their areas of responsibility, are as follows:

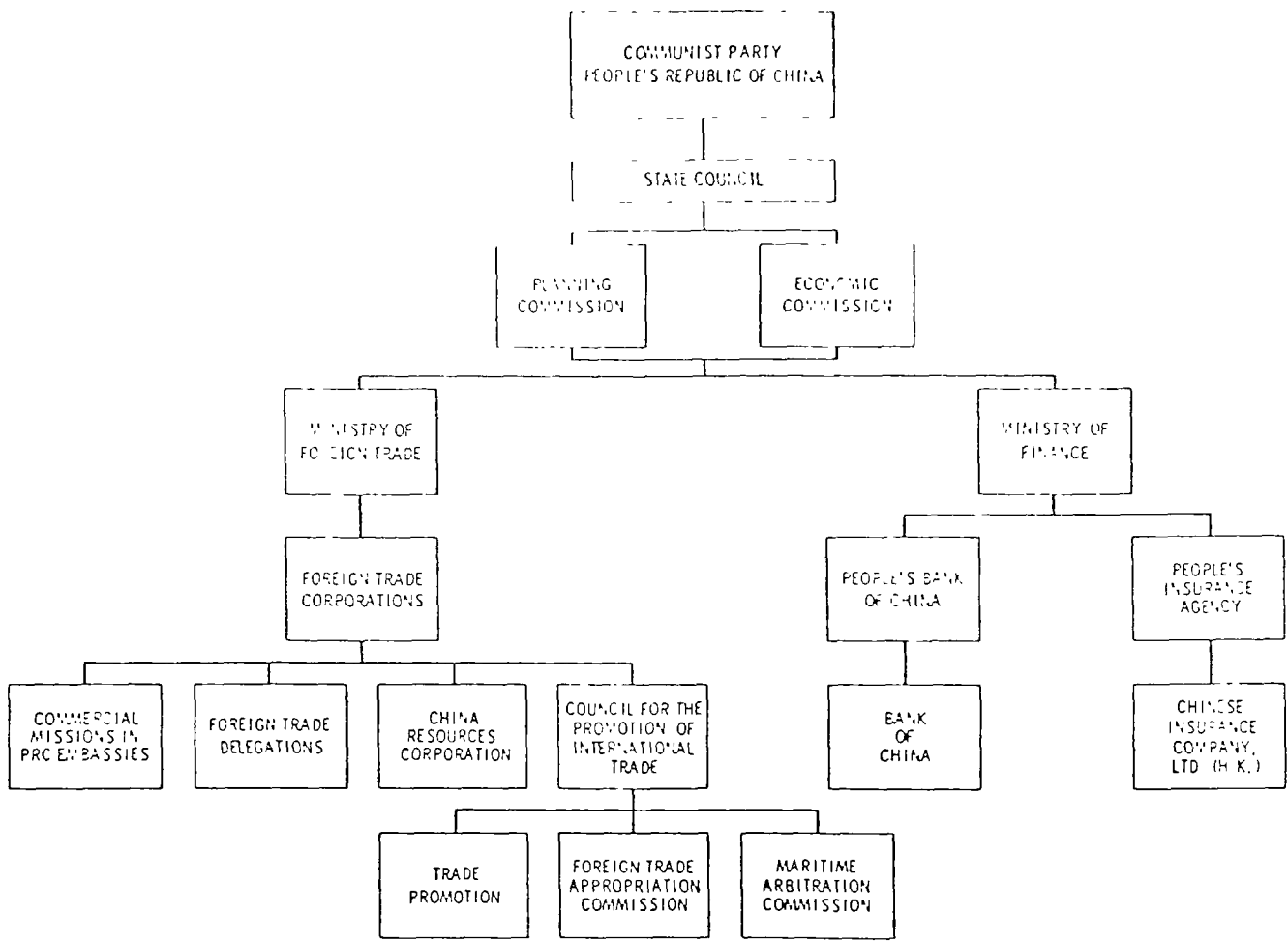
Name	Area of Responsibility
China National Chemicals Import and Export Corp.	Chemicals, rubber, petroleum, fertilizer, and pharmaceuticals.
China National Native Produce and Animal By-products Import and Export Corp.	Tea, coffee, tobacco, forest products, spices, furs, bristles, feathers, casings, hides, and leather.
China National Light Industrial Products Import and Export Corp.	General merchandise, paper, toys, sporting goods, china, jewellery, and precious stones.
China National Textiles Import and Export Corp.	Textile yarn, fabrics, man-made and natural fibres, clothing, and knitwear.
China National Cereals, Oils, and Foodstuffs Import and Export Corp.	Meat, grain, fruits, vegetables, fish, sugar, beverages, and animal feed.
China National Machinery Import and Export Corp.	Machinery, transportation equipment, bearings, instruments, spare parts, and complete plants.
China National Metals and Minerals Import and Export Corp.	Ferrous and nonferrous metals, ores, minerals, coal, cement, and hardware.

China National Technical Import Corp.	Import of complete plants and technology.
Complete Plant Export Corp.	Export of whole plants, usually under aid agreements.
China National Chartering Corp.	Chartering of vessels and booking of shipping space for Chinese imports and exports.
China National Foreign Trade Transportation Corp.	Arranging of customs clearance and delivery of import and export cargoes by land, sea, and air; and arranging of marine and other insurance.
China Council for the Promotion of International Trade	Informing foreign trade organizations of China's trade and keeping abreast of developments in foreign markets; arranging economic and trade-related exchanges; and registration of trademarks.
Chinese Scientific and Technical Association	Planning scientific research and development; and organizing and controlling the professional societies.
People's Insurance Co. of China	Provides international trade and marine risk underwriting at competitive rates.

APPENDIX D

CHINA'S ECONOMIC AND FOREIGN TRADE
DECISION-MAKING STRUCTURE





APPENDIX E

AGREEMENT OF ECONOMIC AND TECHNICAL COOPERATION BETWEEN THE GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA

The Government of the United Republic of Tanzania and the Government of the People's Republic of China, for the purpose of developing economic and technical cooperation and friendly relations between the two countries, have agreed as follows:

Article I

In accordance with the needs of the Government of the United Republic of Tanzania in developing its national economy, the Government of the People's Republic of China agrees to provide the Government of the United Republic of Tanzania with an interest free loan of RENMINBI 150 million without any conditions attached thereto within the five years from July 1, 1974 to June 30, 1979. In case the loan is not used up at the end of this period, the period of its use may be extended through consultations between the two governments.

Article II

The above-mentioned loan shall be extended by the Chinese Government to assist the Tanzania Government in constructing complete projects, to render technical co-operation, to provide equipment and to supply general commodities to meet the local expenses which may be incurred in implementing the projects. The specific projects and items to be undertaken and the matters relating to the local expenses shall be decided upon through consultations between the two governments.

Article III

The used portion of the above-mentioned loan shall be paid by the Tanzania Government in ten equal annual installments extending

over a period of ten years from July 1, 1981 to June 30, 1994 with such Tanzanian export commodities and/or convertible currencies as may be agreed upon by the two governments. This repayment period may be extended through consultations between the two governments, if there arise repayment difficulties at the time it is due.

Article IV

For the implementation of the projects which may be mutually agreed to, the Chinese Government shall, in accordance with the needs of the Tanzania Government, send a necessary number of engineering and technical personnel to Tanzania to render technical assistance on the terms and conditions of service to be worked out through consultations between the two governments.

Article V

The Bank of Tanzania and the People's Bank of China shall work out through consultations the details of the accounting procedures for the implementation of this Agreement.

Article VI

This Agreement shall come into force on the date of signature and remain valid until the complete fulfillment by the two governments of all their obligations hereunder.

Done in duplicate in Peking on March 29, 1971 in the English and Chinese languages, both texts being equally authentic.

APPENDIX F

ESTIMATION OF THE REAL COST OF CHINESE AID

This appendix explains the sources, assumptions, and methodology used to estimate the figures in Tables 29-34 of this thesis. Table 29 estimates the real cost of Chinese economic aid to the LDCs, and contains six sets of data: GNP per capita, commitments, gross disbursements, net disbursements, net transfer, and grant equivalent. The meanings of these concepts were discussed in Chapter V, Section 2 above. This appendix is concerned only with the technical aspects of computation. The GNP per capita and commitments data were taken directly from Tables 6 and 12, respectively, of this thesis. The other data were estimated by the writer.

The first step is to estimate the volume of gross disbursements of Chinese economic aid to the LDCs. This was done by calculating the annual volume of projected gross disbursements on the basis of the following assumptions:

- (1) aid commitments are disbursed in equal annual instalments;
- (2) all commitments are disbursed;
- (3) the average life of aid projects is five years; and
- (4) disbursement begins in the year of commitment.

The results of these calculations are shown in Table F.1. They indicate that, if China had

TABLE F.1
 PROJECTED GROSS DISBURSEMENTS OF
 CHINESE ECONOMIC AID TO THE LDCs, 1956-1974

Year	Millions of US Dollars	Per Cent
1956	11	0.40
1957	15	0.54
1958	22	0.80
1959	22	0.80
1960	37	1.34
1961	47	1.70
1962	47	1.70
1963	58	2.10
1964	134	4.86
1965	134	4.86
1966	136	4.93
1967	143	5.18
1968	136	4.93
1969	61	2.21
1970	188	6.81
1971	268	9.71
1972	368	13.34
1973	443	16.06
1974	489	17.72
Total ^a	2,759	100.00

^aComponents may not add to totals shown due to rounding.

disbursed all of its committed aid in accordance with the above assumptions, the LDCs would have received 2.8 billion dollars of Chinese aid through 1974, or 78 per cent of commitments. However, Fogarty estimates that the Chinese had disbursed only about one-half of their aid commitments to the LDCs, or 1.8 billion dollars, by 1974.¹ It is assumed here that the difference between projected disbursements (2.8 billion dollars) and estimated disbursements (1.8 billion dollars) consists of promises of aid made by the Chinese which, for various reasons, were cancelled or suspended, and that the difference is evenly distributed over time. The next step, therefore, is to calculate the annual volume of estimated gross disbursements by prorating the total in the same proportion as in Table F.1. The results are presented in Table F.2.

The volume of net disbursements and net transfer of Chinese aid to the LDCs were estimated by subtracting the expected value of amortization and interest repayments from gross disbursements. Repayments of amortization and interest were calculated on the basis of the following assumptions: (1) grants accounted for 15 per cent of Chinese aid to the LDCs in each year;² (2) loans were

¹Fogarty, "China's Economic Relations", p. 733.

²Ibid., p. 734; USDS, Aid and Trade in 1974, p. 7.

TABLE F.2

ESTIMATED GROSS DISBURSEMENTS, NET DISBURSEMENTS, AND NET
TRANSFER OF CHINESE ECONOMIC AID TO THE LDCs, 1956-1974
(Millions of US Dollars)

Year	Gross Disbursements	Amortization Repayments	Net Disbursements	Interest Repayments	Net Transfer
1956	7	--	7	--	7
1957	10	--	10	neg.	10
1958	14	--	14	neg.	14
1959	14	--	14	neg.	14
1960	24	--	24	neg.	24
1961	30	--	30	neg.	30
1962	30	1	29	neg.	29
1963	37	1	36	neg.	35
1964	86	1	85	neg.	84
1965	86	1	85	neg.	84
1966	87	1	86	neg.	85
1967	91	1	90	neg.	89
1968	87	1	86	neg.	85
1969	39	3	36	neg.	36
1970	120	4	116	neg.	116
1971	171	6	165	neg.	165
1972	236	8	228	neg.	228
1973	284	10	274	--	274
1974	313	13	300	--	300
Total ^a	1,766	52	1,714	4	1,711

^aComponents may not add to totals shown due to rounding.

neg. means "negligible".

extended on terms of 2.5 per cent interest, five years grace, and 15 years maturity in 1956-1957, zero per cent interest, 10 years grace, and 20 years maturity in 1958-1969, and zero per cent interest, 20 years grace, and 40 years maturity in 1970-1974;³ and (3) amortization repayments were made in equal annual instalments and interest was payable on the declining balance outstanding. Table F.2 shows the results of these calculations.

The grant equivalent of China's aid disbursements to the LDCs is computed in Table F.3. It consists of grants (15 per cent of total aid) plus the grant equivalent of loans (assuming the same financial terms as in the preceding paragraph and a 10 per cent discount rate). The figures in Tables F.2-F.3 were rounded to the nearest five million dollars and are shown in Table 29 of this thesis. The percentage figures in Table 29 were calculated by dividing the dollar amounts by the GNP figures in Table 6 of this thesis.

Table 30 estimates the real cost of Chinese economic aid to other CPCs and was computed in the same manner as Table 29. The GNP per capita and commitments data were taken directly from Tables 6 and 14, respectively, of this thesis.

³Bartke, China's Economic Aid, Table 17, p. 7; Fogarty, "China's Economic Relations", p. 734; OECD, Flow of Resources, p. 402; Tansky, "Chinese Foreign Aid", p. 375; USDS, Aid and Trade in 1974, p. 6.

TABLE F.3

ESTIMATED GRANT EQUIVALENT OF CHINA'S AID
DISBURSEMENTS TO THE LDCs, 1956-1974
(Millions of US Dollars)

Year	Grants	Loans	Grant Element of Loans (Per Cent)	Grant Equivalent of Loans	Total Grant Equivalent
(1)	(2)	(3)	(4)	(3)x(4)=(5)	(2)+(5)=(6)
1956	1	6	46.39	3	4
1957	1	9	46.39	4	5
1958	2	12	76.31	9	11
1959	2	12	76.31	9	11
1960	4	20	76.31	16	19
1961	5	25	76.31	19	24
1962	5	25	76.31	19	24
1963	6	31	76.31	24	30
1964	13	73	76.31	56	69
1965	13	73	76.31	56	69
1966	13	74	76.31	56	69
1967	14	77	76.31	59	73
1968	13	74	76.31	56	69
1969	6	33	76.31	25	31
1970	18	102	93.67	78	96
1971	26	145	93.67	111	137
1972	35	201	93.67	153	188
1973	43	241	93.67	184	227
1974	47	266	93.67	203	250
Total ^a	265	1,501	--	1,141	1,406

^aComponents may not add to totals shown due to rounding.

The volume of projected gross disbursements was calculated by using the same assumptions as on p. 342 above, except that the average project life was assumed to be only three years, reflecting the quicker implementation of China's aid projects in the CPCs. The results, which are shown in Table F.4, indicate that on the basis of these assumptions the CPCs would have received 2.6 billion dollars of Chinese aid through 1974, or 95 per cent of commitments. This agrees with the OECD's estimate that the Chinese have disbursed almost all of their aid commitments to the CPCs.⁴

The expected value of amortization and interest repayments was computed using the same assumptions as on p. 344 above, except that grants were assumed to account for one-half of Chinese aid to the CPCs in each year.⁵ The results are shown in Table F.5 and were deducted from estimated gross disbursements to arrive at net disbursements and net transfer. The grant equivalent of China's aid disbursements to the CPCs is presented in Table F.6. The figures in Tables F.5-F.6 were rounded to the nearest five million dollars and are shown in Table 30 of this thesis. The percentage figures in Table 30 were calculated by dividing the dollar amounts by the GNP figures in Table 6 of this thesis.

⁴OECD, Flow of Resources, p. 399.

⁵Ibid., p. 402.

TABLE F.4
 PROJECTED GROSS DISBURSEMENTS OF
 CHINESE ECONOMIC AID TO OTHER CPCs, 1953-1974

Year	Millions of US Dollars	Per Cent
1953	67	2.65
1954	67	2.65
1955	135	5.34
1956	85	3.36
1957	103	4.07
1958	53	2.10
1959	76	3.01
1960	131	5.18
1961	207	8.19
1962	167	6.60
1963	107	4.23
1964	13	0.51
1965	30	1.19
1966	42	1.66
1967	68	2.69
1968	150	5.93
1969	155	6.13
1970	250	9.89
1971	185	7.32
1972	197	7.79
1973	117	4.63
1974	125	4.94
Total ^a	2,529	100.00

^aComponents may not add to totals shown due to rounding.

TABLE F.5

ESTIMATED GROSS DISBURSEMENTS, NET DISBURSEMENTS, AND NET
TRANSFER OF CHINESE ECONOMIC AID TO OTHER CPCs, 1953-1974
(Millions of US Dollars)

Year	Gross Disbursements	Amortization Repayments	Net Disbursements	Interest Repayments	Net Transfer
1953	67	--	67	--	67
1954	67	--	67	1	66
1955	135	--	135	2	133
1956	85	--	85	3	82
1957	103	--	103	4	99
1958	53	--	53	6	47
1959	76	3	73	6	67
1960	131	7	124	6	119
1961	207	13	194	5	188
1962	167	18	149	5	144
1963	107	23	84	5	79
1964	13	23	-10	4	-14
1965	30	23	7	4	4
1966	42	23	19	3	16
1967	68	23	45	2	43
1968	150	23	127	2	125
1969	155	22	133	1	132
1970	250	23	227	1	227
1971	185	22	163	neg.	162
1972	197	29	168	neg.	168
1973	117	32	85	--	85
1974	125	37	88	--	88
Total ^a	2,529	343	2,186	60	2,126

^aComponents may not add to totals shown due to rounding.

neg. means "negligible".

TABLE F.6

ESTIMATED GRANT EQUIVALENT OF CHINA'S AID
DISBURSEMENTS TO OTHER CPCs, 1953-1974
(Millions of US Dollars)

Year	Grants	Loans	Grant Element of Loans (Per Cent)	Grant Equivalent of Loans	Total Grant Equivalent
(1)	(2)	(3)	(4)	(3)x(4)=(5)	(2)+(5)=(6)
1953	34	34	46.39	16	49
1954	34	34	46.39	16	49
1955	68	68	46.39	31	99
1956	43	43	46.39	20	62
1957	52	52	46.39	24	75
1958	27	27	76.31	20	47
1959	38	38	76.31	29	67
1960	66	66	76.31	50	115
1961	104	104	76.31	79	182
1962	84	84	76.31	64	147
1963	54	54	76.31	41	94
1964	7	7	76.31	5	11
1965	15	15	76.31	11	26
1966	21	21	76.31	16	37
1967	34	34	76.31	26	60
1968	75	75	76.31	57	132
1969	78	78	76.31	59	137
1970	125	125	93.67	117	242
1971	93	93	93.67	87	179
1972	99	99	93.67	92	191
1973	59	59	93.67	55	113
1974	63	63	93.67	59	121
Total ^a	1,265	1,265	--	973	2,237

^aComponents may not add to totals shown due to rounding.

Tables 31-32 and 33-34 of this thesis compare China's economic assistance in 1973-1974 to the aid programmes of the major DMC donors and of other CPC donors, respectively. The derivation of Tables 31-32 is straightforward since most of the data on DMC aid programmes are readily available in the DAC's 1975 Review.⁶ For grant equivalent, however, the information is shown only as a percentage of GNP. Therefore, the dollar grant equivalents in Tables 31-32 had to be computed by multiplying the percentage figures times the value of each country's GNP (which is displayed in DAC, 1975 Review, Statistical Annex, Table 46, pp. 256-257).

Tables 33-34 were more difficult to calculate. The commitments data for Soviet and Eastern European aid were taken directly from USDS, Aid and Trade in 1974, Appendix, Tables 2-3, but much of the remainder had to be estimated. Gross and net disbursements of Soviet aid were estimated by the DAC in its 1975 Review, pp. 175-179, as were Eastern European net disbursements (see Table F.7). Gross disbursements of Eastern European aid were calculated by assuming a disbursement ratio of 36 per cent,⁷ or about 225 million dollars annually during 1972-1974. Interest repayments were

⁶DAC, 1975 Review, Statistical Annex, Tables 2, 5, 7-10, 17-18, and 46, pp. 195, 198, 200-205, 217-219, and 256-257.

⁷OECD, Flow of Resources, Tables 1-2, pp. 408-409.

TABLE F.7

ESTIMATED GROSS DISBURSEMENTS, NET DISBURSEMENTS, AND NET
TRANSFER OF SOVIET AND EASTERN EUROPEAN ECONOMIC AID
TO THE LDCs, 1973-1974^a
(Millions of US Dollars)^a

	USSR		Eastern Europe	
	1973	1974	1973	1974
Gross Disbursements	700	1000	225	225
Less: Amortization Repayments	<u>325</u>	<u>450</u>	<u>100</u>	<u>150</u>
Net Disbursements	375	550	125	75
Less: Interest Repayments	<u>110</u>	<u>150</u>	<u>35</u>	<u>50</u>
Net Transfer	265	400	90	25

^aRounded to the nearest five million dollars.

assumed to be approximately one-third of amortization repayments,⁸ and were deducted from net disbursements to arrive at the net transfer of Soviet and Eastern European aid.

The grant equivalent of Soviet and Eastern European aid disbursements consists of grants (five per cent of total aid)⁹ plus the grant equivalent of loans (see Table F.8). The latter amount was computed on the basis of the following assumptions: (1) Soviet loans carried 2.5 per cent interest and were repayable over 12 years starting one year after completion of the project; (2) Eastern European loans carried three per cent interest and were repayable over 10 years starting one year after completion of the project; (3) aid projects were completed in three years after the agreement; and (4) amortization repayments were made in equal annual instalments and interest was payable on the declining balance outstanding.¹⁰

The percentage figures in Tables 33-34 are the result of dividing the dollar amounts by the GNP of the USSR and

⁸USDS, Aid and Trade in 1972, p. 7.

⁹OECD, Flow of Resources, pp. 407, 415-416; UN, World Economic Survey, 1974, Part One, pp. 176-177; USDS, Aid and Trade in 1974, Appendix, Table 2, n. 1, and Table 3, n. 2.

¹⁰OECD, Flow of Resources, pp. 407, 415-416; UN, World Economic Survey, 1974, Part One, pp. 176-177; USDS, Aid and Trade in 1974, p. 6.

TABLE F.8
ESTIMATED GRANT EQUIVALENT OF SOVIET AND EASTERN
EUROPEAN AID DISBURSEMENTS TO THE LDCs, 1973-1974^a
(Millions of US Dollars)

	USSR		Eastern Europe	
	1973	1974	1973	1974
Grants	35	50	10	10
Loans	(665)	(950)	(215)	(215)
Grant Element of Loans (%)	(44.21)	(44.21)	(38.95)	(38.95)
Grant Equivalent of Loans	<u>295</u>	<u>420</u>	<u>85</u>	<u>85</u>
Total Grant Equivalent	330	470	95	95

^aRounded to the nearest five million dollars.

Eastern Europe. The GNP and GNP per capita figures for the USSR and Eastern European countries (except Romania) are published by the World Bank.¹¹

¹¹World Bank, 1975 World Bank Atlas (Washington, D.C.: World Bank, 1975), Annex, pp. 27-30. Romania's GNP in 1973 is given in USDS, Bureau of Public Affairs, Background Notes on the Countries of the World: Romania, Pubn. 7890 (Washington, D.C.: US Government Printing Office, 1975), p. 1. Since the 1974 figure was not available, the 1973 figure for Romania was used in calculating the average GNP and GNP per capita for Eastern European countries in 1974.

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ABSTRACT OF

The Foreign Aid Programmes and Policies
of the People's Republic of China, 1953-1974¹

Foreign aid became a permanent feature of the Chinese economy in the mid-1950s, at a time when China was still receiving substantial amounts of economic assistance from the USSR. By the end of 1974, the People's Republic of China (PRC) had extended over six billion dollars of economic assistance and at least 1.5 billion dollars of military assistance to the developing countries. The purpose of this thesis is to assess China's aid-giving performance by evaluating the volume, geographic distribution, composition, and financial terms and conditions of China's economic and technical assistance to the developing countries from 1953 to 1974, by estimating the real cost or burden of these aid flows on the Chinese economy, and by comparing the results of these investigations to the aid programmes and policies of other donors.

Despite a low level of economic development itself, the PRC committed approximately 3.5 billion dollars of economic aid to 47 less developed countries (LDCs) between 1956 and

¹Michael D. Moore, master's thesis presented to the School of Graduate Studies of the University of Ottawa, Canada, November, 1976, xi-373 pp.

1974. The volume of aid grew erratically over the years. Over two-thirds of the aid commitments to the LDCs were made available during 1970-1974. More than one-half went to African nations. Furthermore, over one-quarter of the total went to only three countries--Pakistan, Tanzania, and Zambia--and more than 10 per cent was committed to a single project, the Tan-Zam Railroad.

China also maintains an extensive aid programme in other centrally planned economies (CPCs), such as Albania and North Vietnam. The PRC committed at least 2.7 billion dollars of economic aid to these countries between 1953 and 1974. The annual volume of new aid commitments did not fluctuate as much as in the case of China's aid programme in the LDCs; less than one-third of total commitments to the CPCs were made available during 1970-1974. The geographic distribution was even more concentrated than the parallel programme in the LDCs; only seven countries received virtually all of the economic aid extended to the CPCs since 1953. Moreover, one country alone--North Vietnam--accounts for one-half of total commitments to the CPCs.

On the basis of commitment figures, China's economic aid programme appears to be a six billion dollar operation. However, by the end of 1974, China had actually disbursed an estimated 4.3 billion dollars of economic aid, or only about two-thirds of the amount committed. The concept of gross disbursements serves as the starting-point for three

alternative measures of the real cost of Chinese aid--net disbursements, net transfer, and grant equivalent. Depending on the measure chosen, the results indicate that economic aid actually cost the Chinese economy between 3.6 billion and 3.9 billion dollars through 1974. In 1974, the cost of China's aid programme amounted to an estimated 370-390 million dollars, or less than 0.2 per cent of China's GNP.

China's aid programme is composed almost entirely of bilateral assistance. Project aid accounted for about two-thirds of aid to the LDCs and concentrated on the construction of transportation facilities, on light industrial projects, and on agricultural development. In contrast, China's aid projects in the CPCs were mainly directed toward the establishment of heavy industry and manufacturing. The rest of China's aid was extended in the form of commodities and foreign exchange.

The financial terms of Chinese aid are highly concessional. Grants comprised about 15 per cent of China's economic assistance to the LDCs, compared to over one-half in the case of the CPCs. The rest of China's aid consisted of long-term loans on extremely soft terms. The typical Chinese loan commitment of the 1960s was interest-free with a maturity of 20 years, including a grace period of 10 years. In the 1970s, longer grace periods have been allowed, frequently ranging up to 20 or 30 years, and the maturities have often been longer than before, reaching 40 to 60 years. Chinese

aid is almost exclusively tied to the procurement of goods and services in the PRC. The repayment terms usually provide for repayment in local goods.

Technical assistance is an important part of China's aid programme. The number of Chinese technicians sent abroad under aid programmes increased from only 25 technicians in 1957 to almost 23,000 in 1974. In recent years, only France had more technicians working in the LDCs than China.

China's aid-giving performance stands up reasonably well to international comparison. In terms of the absolute volume of China's aid programme, the PRC has not played a major role in the international development effort, especially when compared to traditional donors such as France and the United States. In relation to China's aid-giving capacity, however, the PRC has set aside significant amounts of scarce economic resources for foreign aid purposes. China's aid effort is remarkable when one considers that the per capita GNP of the PRC is less than 1/25th that of the United States, the world's largest aid donor; yet China sacrifices just a slightly smaller proportion of its national product for aid contributions than does the United States. Moreover, China extends its assistance on liberal terms that would embarrass many of the richer donor countries.